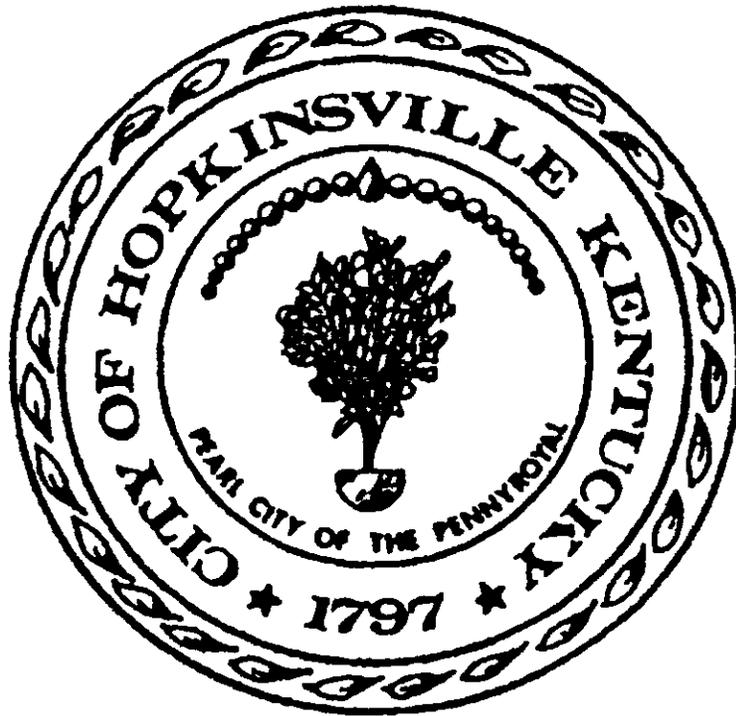


**CITY OF HOPKINSVILLE, KENTUCKY
BASIC FINANCIAL STATEMENTS**



**For the Year Ended
June 30, 2017**

**YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS | KENTUCKY SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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**CITY OF HOPKINSVILLE
HOPKINSVILLE, KENTUCKY**

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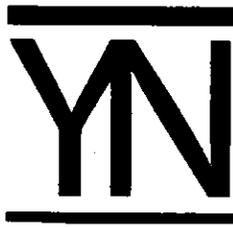
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YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and budgetary comparison information on pages 4-15, 90-96, and 97-99, 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.

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

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

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 December 30, 2017, on our consideration of the City of Hopkinsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

York, Neel + Associates, LLP

Hopkinsville, Kentucky
December 30, 2017

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, 2017. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements (pages 16-29) provided in this document.

I. Financial Highlights

- The City's assets and deferred outflows exceeded liabilities and deferred inflows at the close of the fiscal year by \$8.4 million (net position). This amount includes \$1.3 million that are restricted to specific projects by laws, regulations, or contractual agreements.
- The City's total net position increased \$1.5 million this year. Net position of governmental activities increased \$1.6 million, and net position of business-type activities decreased by (\$99) thousand.
- As of June 30, 2017, the City's governmental funds reported combined ending fund balances of \$17.1 million, an increase of \$2.5 million from the prior year. Approximately \$10.2 million, 59.64% of this total amount, is unassigned and available for spending.
- The City's governmental activities total debt increased overall by \$1.0 million. Debt increases included \$2.9 million for a bond issue to finance an economic development grant and \$2.4 million for new capital leases on behalf of a component unit. Debt decreases included \$1.5 million due to the repayment of debt by the City and \$2.8 million due to the component units' repayment of debt.

II. Overview of Financial Statements

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

The GASB 34 reporting model is designed to provide improved information to the reader. The statements present a financial picture of the City as a whole through the use of a consolidated statement of all funds, eliminating interfund transfers. In addition, the values of capital assets of governmental-type operations are presented. Under prior reporting standards, the infrastructure assets for governmental-type funds were not reported or depreciated.

A. Government-Wide Financial Statements

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

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

The Statement of Activities shows how City net position changed during the past fiscal year. All net position changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in the future (e.g., uncollected taxes and earned but unused vacation leave).

These two government-wide financial statements separate City functions primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a significant portion of expenses through user fees and charges (business-type activities). City governmental activities include general government, public safety, public works, community and economic development, and parks and recreation. Business-type activities of the City include the family aquatic center.

Government-wide financial statements include not only the City (the primary government), but also three legally separate component units for which the City is financially accountable, Hopkinsville Water Environment Authority, Hopkinsville Solid Waste Enterprise, and Hopkinsville Surface and 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 16-18 of this report.

B. Fund Financial Statements

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

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

The City maintains fourteen (14) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other thirteen (13) governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation of the financial statements.

The basic governmental fund financial statements can be found at pages 19-22 of this report.

2) Proprietary Funds. The City maintains two different types of proprietary funds:

a. Enterprise funds. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements and are used to account for operations:

- that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City uses one enterprise fund to account for the Tie Breaker Family Aquatic Center, as well as the discretely presented component units that provide water and sewerage services, solid waste services, and stormwater utility services.

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

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Individual data for the proprietary fund financial statements is presented in the form of combining statements at pages 23-25 of this report.

3) Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not reflected in government-wide financial statements because those resources are not available to support City programs. Data for the City's fiduciary fund (Policemen's and Firefighter's Pension Fund) is presented in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The fiduciary fund financial statements are presented at pages 26-27 of this report.

C. 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 30-89 of this report.

D. Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning City funding of its obligation to provide pension benefits to its employees and budgetary comparison schedules as required. The General Fund is the budgeted major fund for which budgetary comparison information is reported. Required and other supplementary information follow the notes to the 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 100-103 and 105-106 of this report.

III. Government-Wide Financial Analysis

As previously indicated, net position may serve over time as a useful indicator of the City's financial position. The City as a whole had assets and deferred outflows greater than liabilities and deferred inflows by \$8.4 million, an increase of \$1.5 million over last year. Of the \$8.4 million, \$27.6 million was net investment in capital assets, \$1.3 million was restricted, and (\$20.5) million was unrestricted. Net position of governmental activity funds total \$5.4 million, with \$24.7 million as net investment in capital assets, \$1.3 million as restricted, and (\$20.6) million as unrestricted. The net position of the City's business-type activities total \$3.0 million. Of that net position total, \$2.8 million was net investment in capital assets with an unrestricted fund balance of \$179 thousand. The unrestricted net position of governmental funds includes fund balances of the General Fund and various special revenue funds. Unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors in the future.

The largest portion of the City's net position reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide service to citizens and as a result, these assets are not available for future spending. The City's investment in capital assets is reported net of related debt, but the resources to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

At the end of the fiscal year, the City is able to report positive balances in the net investment in capital assets portion and in the restricted portion of net position both for the government as a whole as well as its separate governmental and business-type activities. Governmental activities report a negative balance in the unrestricted portion of net position; business-type activities report a positive balance in the unrestricted portion of net position. However, the government as a whole reflects a positive balance in total net position.

City of Hopkinsville Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 47,323,048 | \$ 46,232,087 | \$ 193,018 | \$ 164,618 | \$ 47,516,066 | \$ 46,396,705 |
| Capital assets | <u>40,189,701</u> | <u>40,852,204</u> | <u>2,842,302</u> | <u>2,968,033</u> | <u>43,032,003</u> | <u>43,820,237</u> |
| Total assets | <u>\$ 87,512,749</u> | <u>\$ 87,084,291</u> | <u>\$ 3,035,320</u> | <u>\$ 3,132,651</u> | <u>\$ 90,548,069</u> | <u>\$ 90,216,942</u> |
| Deferred outflows of resources | <u>\$ 10,357,324</u> | <u>\$ 6,436,892</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,357,324</u> | <u>\$ 6,436,892</u> |
| Long-term liabilities outstanding | \$ 90,040,847 | \$ 86,393,326 | \$ - | \$ - | \$ 90,040,847 | \$ 86,393,326 |
| Other liabilities | <u>1,150,726</u> | <u>1,735,469</u> | <u>13,681</u> | <u>11,564</u> | <u>1,164,407</u> | <u>1,747,033</u> |
| Total liabilities | <u>\$ 91,191,573</u> | <u>\$ 88,128,795</u> | <u>\$ 13,681</u> | <u>\$ 11,564</u> | <u>\$ 91,205,254</u> | <u>\$ 88,140,359</u> |
| Deferred inflows of resources | <u>\$ 1,279,822</u> | <u>\$ 1,580,833</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,279,822</u> | <u>\$ 1,580,833</u> |
| Net position: | | | | | | |
| Net investment in capital assets | \$ 24,728,017 | \$ 21,965,466 | \$ 2,842,302 | \$ 2,968,033 | \$ 27,570,319 | \$ 24,933,499 |
| Restricted | 1,334,085 | 1,692,096 | - | - | 1,334,085 | 1,692,096 |
| Unrestricted (deficit) | <u>(20,663,424)</u> | <u>(19,846,007)</u> | <u>179,337</u> | <u>153,054</u> | <u>(20,484,087)</u> | <u>(19,692,953)</u> |
| Total net position | <u>\$ 5,398,678</u> | <u>\$ 3,811,555</u> | <u>\$ 3,021,639</u> | <u>\$ 3,121,087</u> | <u>\$ 8,420,317</u> | <u>\$ 6,932,642</u> |

A. Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended June 30, 2017. Governmental activities increased the City's net position by \$1.6 million, while business-type activities decreased the City's net position by (\$99) thousand.

City of Hopkinsville – Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|----------------------|-----------------------------|-------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 2,160,439 | \$ 2,094,699 | \$ 283,385 | \$ 319,205 | \$ 2,443,824 | \$ 2,413,904 |
| Operating grants/contributions/interest | 5,252,879 | 4,679,910 | - | - | 5,252,879 | 4,679,910 |
| Capital grants/contributions | 556,982 | 1,943,657 | - | - | 556,982 | 1,943,657 |
| General revenues: | | | | | | |
| Property taxes | 5,243,966 | 4,964,443 | - | - | 5,243,966 | 4,964,443 |
| Occupational taxes | 16,530,486 | 15,874,685 | - | - | 16,530,486 | 15,874,685 |
| Insurance premium tax | 4,173,559 | 3,959,355 | - | - | 4,173,559 | 3,959,355 |
| Franchise tax | 287,047 | 301,089 | - | - | 287,047 | 301,089 |
| Transient room tax | 513,155 | 328,263 | - | - | 513,155 | 328,263 |
| Payment in lieu of taxes | 486,763 | 400,483 | - | - | 486,763 | 400,483 |
| Investment income | 113,685 | 129,645 | 1,052 | 469 | 114,737 | 130,114 |
| Gain on sale of capital assets | 1,865 | 26,773 | - | - | 1,865 | 26,773 |
| Other | 1,941 | 4,548 | - | - | 1,941 | 4,548 |
| Total revenues | <u>\$ 35,322,767</u> | <u>\$ 34,707,550</u> | <u>\$ 284,437</u> | <u>\$ 319,674</u> | <u>\$ 35,607,204</u> | <u>\$ 35,027,224</u> |

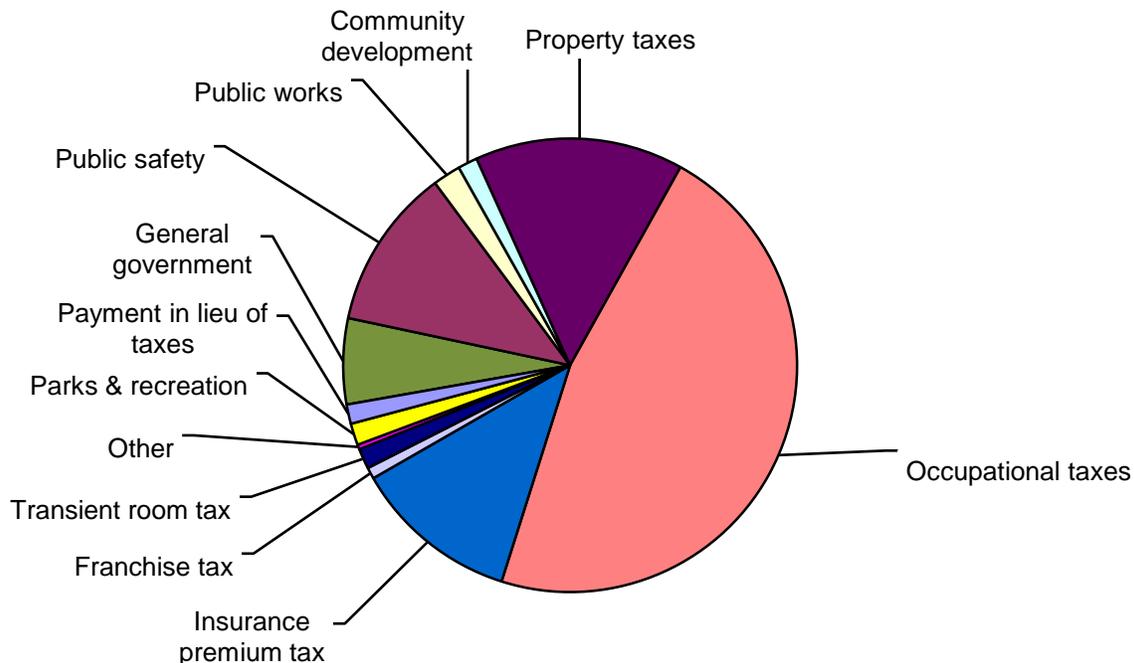
City of Hopkinsville – Changes in Net Position, continued

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-----------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|-----------------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Expenses: | | | | | | |
| General government | \$ 4,083,658 | \$ 4,226,208 | \$ - | \$ - | \$ 4,083,658 | \$ 4,226,208 |
| Public safety | 16,260,545 | 18,382,779 | - | - | 16,260,545 | 18,382,779 |
| Public works | 4,020,924 | 4,123,497 | - | - | 4,020,924 | 4,123,497 |
| Community development | 7,263,035 | 5,362,614 | - | - | 7,263,035 | 5,362,614 |
| Parks and recreation | 1,348,188 | 1,076,162 | - | - | 1,348,188 | 1,076,162 |
| Interest on long-term debt | 659,294 | 605,492 | - | - | 659,294 | 605,492 |
| Tie Breaker Family Aquatic | - | - | 483,885 | 476,184 | 483,885 | 476,184 |
| Total expenses | <u>\$ 33,635,644</u> | <u>\$ 33,776,752</u> | <u>\$ 483,885</u> | <u>\$ 476,184</u> | <u>\$ 34,119,529</u> | <u>\$ 34,252,936</u> |
| Change in net position before transfers | \$ 1,687,123 | \$ 930,798 | \$ (199,448) | \$ (156,510) | \$ 1,487,675 | \$ 774,288 |
| Transfers | (100,000) | (125,000) | 100,000 | 125,000 | - | - |
| Increase (decrease) in net position | 1,587,123 | 805,798 | (99,448) | (31,510) | 1,487,675 | 774,288 |
| Net position, beginning | 3,811,555 | 3,005,757 | 3,121,087 | 3,152,597 | 6,932,642 | 6,158,354 |
| Net position, ending | <u>\$ 5,398,678</u> | <u>\$ 3,811,555</u> | <u>\$ 3,021,639</u> | <u>\$ 3,121,087</u> | <u>\$ 8,420,317</u> | <u>\$ 6,932,642</u> |

B. Governmental Activities

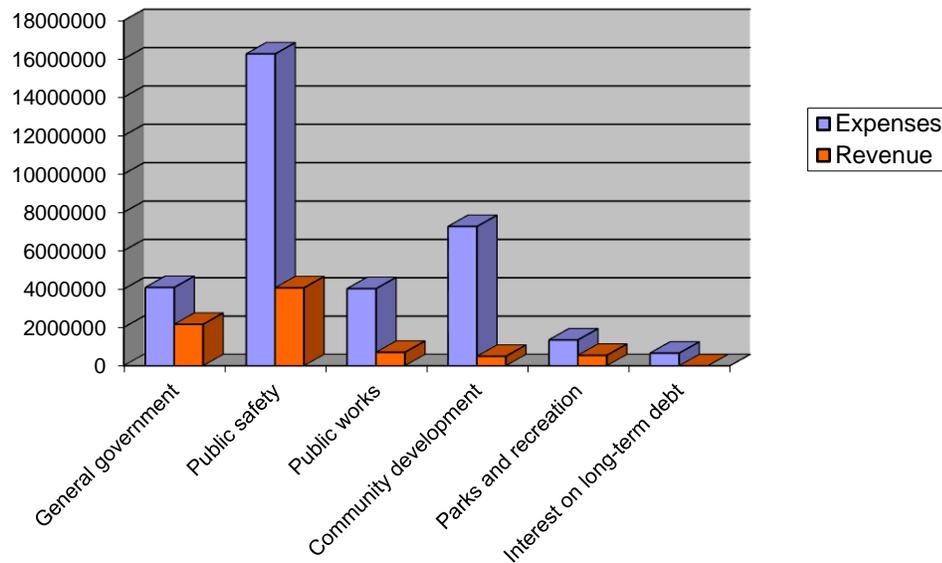
Total revenues for the City's governmental activities total \$35.3 million for the year ended June 30, 2017, compared to \$34.7 million last year. Occupational taxes total \$16.5 million or 46.79% of revenue. The second largest category of government revenues, operating grants/contributions/interest, accounts for \$5.3 million, or 14.87% of revenue. The third largest category of government revenues, property taxes, accounts for \$5.2 million, or 14.84% of total revenues. Insurance premium tax totals \$4.2 million, or 11.81% of total revenue. Miscellaneous sources account for \$2 thousand, or less than 0.01%.

Revenue by Source – Governmental Activities



Current year total expenses of the City's governmental activities total \$33.6 million, compared to \$33.8 million last year. Public Safety expenses total \$16.3 million and account for 48.34% of total expenses. The second largest category of expenses, Community Development, totals \$7.3 million and accounts for 21.59% of expenses. General government is the next largest category and totals \$4.1 million, or 12.14% of expenses. Public Works totals \$4.0 million, or 11.95% of expenses.

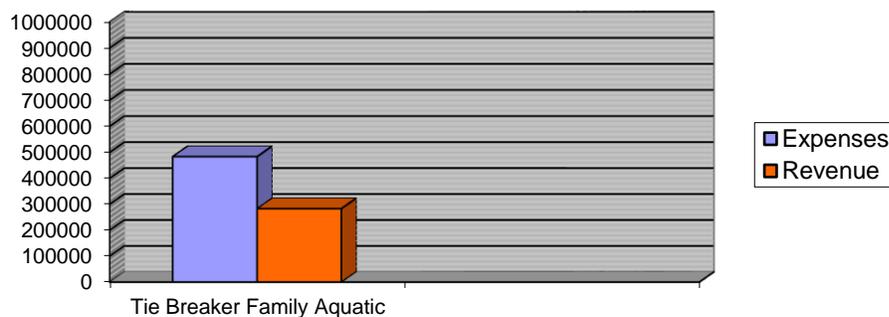
Expenses and Program Revenues – Governmental Activities



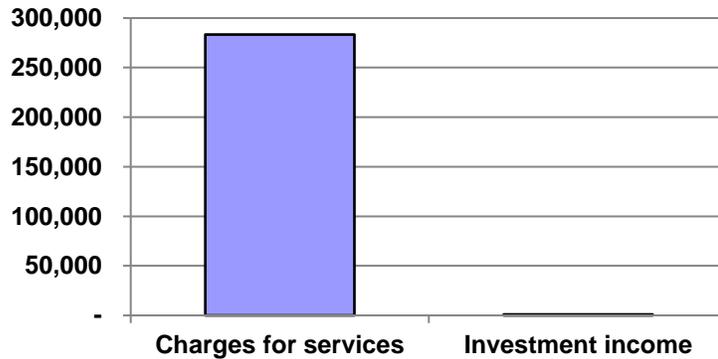
C. Business-Type Activities

Revenues for business-type activities total \$284 thousand this fiscal year compared to \$320 thousand last year. Of this total, \$283 thousand or 99.63% was from charges for services and sales. Expenses for business-type activities total \$484 thousand. The only program in the business-type activities was the operations of the Tie Breaker Family Aquatic Park, which accounts for 100% of business-type expenses.

Expenses and Revenues – Business-Type Activities



Revenue by Source – Business-Type Activities

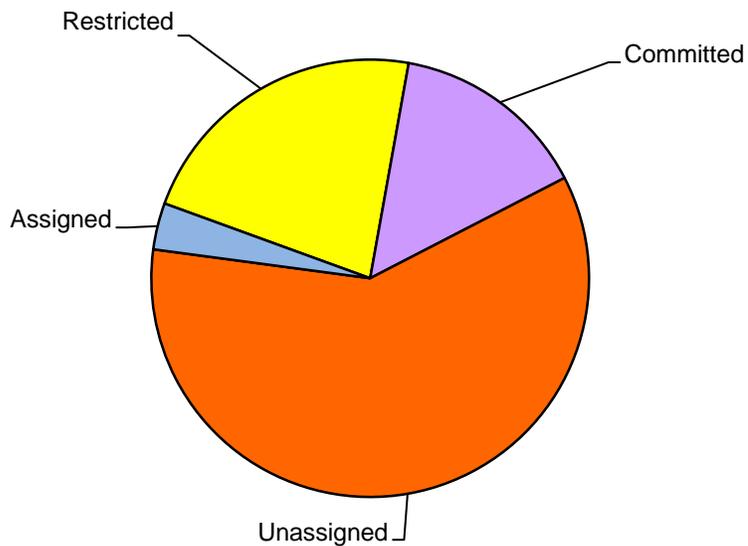


D. Governmental Funds

At the end of the current fiscal year, the City governmental funds reported combined ending fund balances of \$17.1 million, an increase of \$2.5 million from the prior year. Approximately 59.70% of the total amount of governmental fund balance, \$10.2 million, is unassigned fund balance, which is available for spending at the government’s discretion. Approximately 22.26%, \$3.8 million, is restricted fund balance. Approximately 3.44%, \$590 thousand, has been encumbered or is assigned. The remainder of fund balance, \$2.5 million, is committed to indicate it is not available for new spending because it has already been committed.

The total ending fund balance of governmental funds for the current year shows an increase of \$2.5 million from the prior year. This increase is primarily the result of events and programs described within the analysis of the City’s governmental activities.

Ending Fund Balances – Governmental Activities



The General Fund is the chief operating fund of the City. At the end of the 2016-2017 fiscal year, the total fund balance in the General Fund was \$12.6 million, which represents an increase of \$2.1 million from the prior year. Of the total fund balance in the General Fund, unassigned fund balance was \$10.2 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 29.32% of total general fund expenditures of \$34.9 million, and total fund balance represents 36.08% of total general fund expenditures.

Taxes in General Fund increased \$496 thousand, which represents a 9.36% 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 \$1.0 million, which represents a 4.48% increase over prior year and indicates an improvement in the economy. The unemployment rate for Hopkinsville increased from 6.7% to 7.9% from June 30, 2016 to June 30, 2017.

General government expenditures decreased \$252 thousand; public safety expenditures decreased \$373 thousand; and public works increased \$83 thousand. Community development expenditures decreased \$6.0 million, which is due to fewer grant projects during the year.

E. Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total net position in the proprietary funds equals \$3.0 million as of June 30, 2017, compared to \$3.1 million last year.

The Tie Breaker Family Aquatic Park has total net position of \$3.0 million, representing a decrease of \$99 thousand from prior year. Of the total net position, \$2.8 million was net investment in capital assets and \$179 thousand was unrestricted. This decrease is primarily the result of events and programs described within the analysis of the City's business-type activities.

IV. General Fund Budgetary Highlights

Over the course of the 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 \$779 thousand or 2.53% during the year. The changes in appropriations can be briefly summarized as follows:

- \$ 19,420 decrease in general administrative
- \$ 69,000 increase in tax department
- \$ 76,421 decrease in information technology
- \$ - no change in legislative
- \$ 142,867 decrease in police
- \$ - no change in emergency communications
- \$ 343,040 increase in fire
- \$ - no change in other public safety
- \$ 7,900 decrease in public works administrative
- \$ 56,423 decrease in street
- \$ - no change in service center
- \$ - no change in other public works
- \$ 300,000 increase in community development
- \$ 27,451 increase in parks and recreation
- \$ - no change in debt service principal
- \$ - no change in interest and finance charges
- \$ 342,540 increase in capital outlays

The net increase to appropriations of \$779 thousand was to be budgeted from the available fund balance and 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 \$1.0 million 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 97-99.

V. Capital Asset and Debt Administration

A. Capital Assets

The City's total investment in capital assets is \$43.0 million (net of accumulated depreciation) as of June 30, 2017, which represents a decrease of \$800 thousand over prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges, and construction in progress. For governmental activities, investment in capital assets totaled \$40.2 million, a decrease of \$600 thousand. For business-type activities, investment in capital assets totaled \$2.8 million, a decrease of \$126 thousand.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 1,933,350 | \$ 1,933,350 | \$ - | \$ - | \$ 1,933,350 | \$ 1,933,350 |
| Construction in progress | 5,102,785 | 4,679,697 | - | - | 5,102,785 | 4,679,697 |
| Land improvements | 6,234,993 | 6,579,299 | - | - | 6,234,993 | 6,579,299 |
| Buildings and improvements | 15,391,717 | 15,750,300 | 2,815,174 | 2,911,351 | 18,206,891 | 18,661,651 |
| Machinery and equipment | 4,500,487 | 4,298,641 | 27,128 | 56,682 | 4,527,615 | 4,355,323 |
| Infrastructure | <u>7,026,369</u> | <u>7,610,917</u> | <u>-</u> | <u>-</u> | <u>7,026,369</u> | <u>7,610,917</u> |
| Total | <u>\$40,189,701</u> | <u>\$40,852,204</u> | <u>\$2,842,302</u> | <u>\$ 2,968,033</u> | <u>\$43,032,003</u> | <u>\$43,820,237</u> |

Additional information on City capital assets can be found in Note 4 in the footnotes at pages 49-51.

B. Long-Term Debt

At June 30, 2017, the City had \$49.8 million in outstanding notes and bonds compared to \$48.8 million at June 30, 2016, an increase of \$976 thousand. The City issued a new bond for \$3.0 million. The City, on behalf of one component unit, also entered into multiple capital leases for various solid waste trucks of \$2.4 million. The following table illustrates the changes in outstanding notes, bonds and capital leases:

| | Governmental Activities | |
|-----------------------------------|-------------------------|---------------------|
| | 2017 | 2016 |
| General obligation bonds & leases | \$ 45,905,398 | \$ 46,081,705 |
| Capital leases | 2,792,611 | 1,446,925 |
| Note payable | <u>1,125,000</u> | <u>1,318,768</u> |
| Total | <u>\$49,823,009</u> | <u>\$48,847,398</u> |

The City's legal debt limit under §158 of the Kentucky Constitution is 10% of total assessed value of taxable property in Hopkinsville; therefore, the debt limit is \$194,833,935. The City's latest bond rating is AA-.

Additional information on the City's long-term debt can be found in Note 10 in the footnotes at pages 69-80.

VI. Economic Factors and Next Year's Budgets and Rates

A. Unemployment Rate

The unemployment rate for the City of Hopkinsville (Christian County) as of June 2017 was 7.9%. This rate compares unfavorably to state and federal unemployment rates, 5.1% and 4.4%, respectively.

B. Inflationary Trends

Inflationary trends in the City compare favorably to state and national trends.

The current and future needs of the City were considered when the 2016-2017 budget for the City of Hopkinsville was prepared. The beginning general fund balance for fiscal year 2016-2017 was \$10,545,216, and there is an estimated ending fund balance of \$12,591,176. At the present time, the City is in good financial condition.

VII. Requests for Information

This financial report is designed to provide a general financial overview for those interested in the City of Hopkinsville government finances. Questions or requests for additional financial information may be addressed to Robert Martin, 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 9th 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, 2017

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|---------------------------|---------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Pooled cash and cash equivalents | \$ 12,353,466 | \$ - | \$ 12,353,466 | \$ - |
| Non-pooled cash and cash equivalents | 747,155 | 193,018 | 940,173 | 12,166,744 |
| Investments | 35,181 | - | 35,181 | - |
| Accounts receivable | - | - | - | 1,722,939 |
| Taxes receivable | 2,989,011 | - | 2,989,011 | - |
| Other receivables | 421,196 | - | 421,196 | 5,832,814 |
| Other current assets | - | - | - | 19,676 |
| Due from component unit | 18,810 | - | 18,810 | - |
| Inventory | - | - | - | 240,539 |
| Prepaid insurance | - | - | - | 7,738 |
| Accrued interest on note receivable | - | - | - | 404 |
| Restricted assets: | | | | |
| Due from Component Units | | | | |
| Due within one year | 4,094,044 | - | 4,094,044 | - |
| Due beyond one year | 24,546,026 | - | 24,546,026 | - |
| Temporarily restricted: | | | | |
| Cash and cash equivalents | 1,439,524 | - | 1,439,524 | 4,861,682 |
| Investments | 239,710 | - | 239,710 | 244,009 |
| Permanently restricted assets: | | | | |
| Cash and cash equivalents | 71,426 | - | 71,426 | - |
| Investments | 367,499 | - | 367,499 | - |
| Capital Assets | | | | |
| Land and construction in progress | 7,036,135 | - | 7,036,135 | 13,324,533 |
| Capital assets, net of accumulated depreciation | 33,153,566 | 2,842,302 | 35,995,868 | 112,418,077 |
| Total capital assets | <u>40,189,701</u> | <u>2,842,302</u> | <u>43,032,003</u> | <u>125,742,610</u> |
| Total assets | <u>87,512,749</u> | <u>3,035,320</u> | <u>90,548,069</u> | <u>150,839,155</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension | 10,308,107 | - | 10,308,107 | 3,321,399 |
| Deferred refunding costs | 49,217 | - | 49,217 | 556,100 |
| Total deferred outflows of resources | <u>10,357,324</u> | <u>-</u> | <u>10,357,324</u> | <u>3,877,499</u> |
| Total assets and deferred outflows of resources | <u>\$ 97,870,073</u> | <u>\$ 3,035,320</u> | <u>\$ 100,905,393</u> | <u>\$ 154,716,654</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, 2017

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|---------------------------|---------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| LIABILITIES | | | | |
| Accounts payable | \$ 301,505 | \$ 13,681 | \$ 315,186 | \$ 437,671 |
| Accrued salaries | 486,929 | - | 486,929 | - |
| Claims payable | 61,601 | - | 61,601 | - |
| Accrued interest | 299,691 | - | 299,691 | 400,481 |
| Transient bond deposits | 1,000 | - | 1,000 | - |
| Construction retainage payable | - | - | - | 328,675 |
| Customer deposits | - | - | - | 97,603 |
| Due to primary government: | | | | |
| Due within one year | - | - | - | 4,094,044 |
| Due beyond one year | - | - | - | 24,546,026 |
| Noncurrent liabilities: | | | | |
| Due within one year | 5,380,157 | - | 5,380,157 | 5,464,534 |
| Due beyond one year | 81,950,815 | - | 81,950,815 | 59,210,813 |
| Compensated absences: | | | | |
| Due within one year | 108,395 | - | 108,395 | 406,262 |
| Due beyond one year | 2,601,480 | - | 2,601,480 | 559,585 |
| Total liabilities | <u>91,191,573</u> | <u>13,681</u> | <u>91,205,254</u> | <u>95,545,694</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred revenue - USACE | - | - | - | 5,608,881 |
| Pension | 1,279,822 | - | 1,279,822 | 267,498 |
| Total deferred inflows of resources | <u>1,279,822</u> | <u>-</u> | <u>1,279,822</u> | <u>5,876,379</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 24,728,017 | 2,842,302 | 27,570,319 | 47,743,794 |
| Restricted for: | | | | |
| Capital projects | 550,254 | - | 550,254 | - |
| Debt reserves | - | - | - | 2,000,308 |
| Perpetual care: | | | | |
| Expendable | 344,906 | - | 344,906 | - |
| Nonexpendable | 438,925 | - | 438,925 | - |
| Unrestricted (deficit) | <u>(20,663,424)</u> | <u>179,337</u> | <u>(20,484,087)</u> | <u>3,550,479</u> |
| Total net position | <u>5,398,678</u> | <u>3,021,639</u> | <u>8,420,317</u> | <u>53,294,581</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 97,870,073</u> | <u>\$ 3,035,320</u> | <u>\$ 100,905,393</u> | <u>\$ 154,716,654</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, 2017

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | Component Units |
|---|------------------------|--------------------------------------|--|-------------------------------------|---|-----------------------------|---------------------|----------------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| PRIMARY GOVERNMENT | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ (4,083,658) | \$ 1,906,409 | \$ 256,503 | \$ - | \$ (1,920,746) | \$ - | \$ (1,920,746) | \$ - |
| Public safety | (16,260,545) | 73,980 | 3,776,442 | 215,336 | (12,194,787) | - | (12,194,787) | - |
| Public works | (4,020,924) | - | 703,067 | - | (3,317,857) | - | (3,317,857) | - |
| Community development | (7,263,035) | - | 161,115 | 331,720 | (6,770,200) | - | (6,770,200) | - |
| Parks and recreation | (1,348,188) | 180,050 | 355,752 | 9,926 | (802,460) | - | (802,460) | - |
| Interest on long-term debt | (659,294) | - | - | - | (659,294) | - | (659,294) | - |
| Total governmental activities | <u>(33,635,644)</u> | <u>2,160,439</u> | <u>5,252,879</u> | <u>556,982</u> | <u>(25,665,344)</u> | <u>-</u> | <u>(25,665,344)</u> | <u>-</u> |
| Business-type activities: | | | | | | | | |
| Tie Breaker Family Aquatic | (483,885) | 283,385 | - | - | - | (200,500) | (200,500) | - |
| Total business-type activities | <u>(483,885)</u> | <u>283,385</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(200,500)</u> | <u>(200,500)</u> | <u>-</u> |
| Total - primary government | <u>\$ (34,119,529)</u> | <u>\$ 2,443,824</u> | <u>\$ 5,252,879</u> | <u>\$ 556,982</u> | <u>(25,665,344)</u> | <u>(200,500)</u> | <u>(25,865,844)</u> | <u>-</u> |
| COMPONENT UNITS | | | | | | | | |
| Hopkinsville Water Environment Authority | \$ (14,360,224) | \$ 15,359,787 | \$ - | \$ 184,409 | - | - | - | 1,183,972 |
| Hopkinsville Solid Waste Enterprise | (7,541,320) | 7,329,458 | - | - | - | - | - | (211,862) |
| Hopkinsville Surface and Stormwater Utility | (2,179,380) | 1,182,398 | 763,626 | 65,564 | - | - | - | (167,792) |
| Total - component units | <u>\$ (24,080,924)</u> | <u>\$ 23,871,643</u> | <u>\$ 763,626</u> | <u>\$ 249,973</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>804,318</u> |
| GENERAL REVENUES | | | | | | | | |
| Property taxes | | | | | 5,243,966 | - | 5,243,966 | - |
| Occupational taxes | | | | | 16,530,486 | - | 16,530,486 | - |
| Insurance premium tax | | | | | 4,173,559 | - | 4,173,559 | - |
| Franchise tax | | | | | 287,047 | - | 287,047 | - |
| Transient room tax | | | | | 513,155 | - | 513,155 | - |
| Payment in lieu of taxes | | | | | 486,763 | - | 486,763 | - |
| Investment income | | | | | 113,685 | 1,052 | 114,737 | 120,792 |
| Gain (loss) on sale of capital assets | | | | | 1,865 | - | 1,865 | 201,237 |
| Other | | | | | 1,941 | - | 1,941 | 297,523 |
| Total general revenues | | | | | <u>27,352,467</u> | <u>1,052</u> | <u>27,353,519</u> | <u>619,552</u> |
| Transfers | | | | | (100,000) | 100,000 | - | - |
| Total general revenues and transfers | | | | | <u>27,252,467</u> | <u>101,052</u> | <u>27,353,519</u> | <u>619,552</u> |
| Change in net position | | | | | 1,587,123 | (99,448) | 1,487,675 | 1,423,870 |
| Net position, beginning of year | | | | | 3,811,555 | 3,121,087 | 6,932,642 | 51,870,711 |
| Net position, end of year | | | | | <u>\$ 5,398,678</u> | <u>\$ 3,021,639</u> | <u>\$ 8,420,317</u> | <u>\$ 53,294,581</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, 2017

| | <u>Major Fund</u> | Other | Total |
|--|--------------------------|-------------------------|--------------------------|
| | General | Governmental | Governmental |
| | <u> </u> | <u>Funds</u> | <u>Funds</u> |
| ASSETS | | | |
| Pooled cash and cash equivalents | \$ 10,316,403 | \$ 2,037,062 | \$ 12,353,465 |
| Non-pooled cash and cash equivalents | 108,389 | 1,623,318 | 1,731,707 |
| Investments | 35,181 | 607,209 | 642,390 |
| Taxes receivable | 2,761,049 | - | 2,761,049 |
| Loans receivable | - | 222,196 | 222,196 |
| Due from component unit | 18,810 | - | 18,810 |
| Other receivables | <u>-</u> | <u>199,000</u> | <u>199,000</u> |
| Total assets | <u>\$ 13,239,832</u> | <u>\$ 4,688,785</u> | <u>\$ 17,928,617</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 160,727 | \$ 140,776 | \$ 301,503 |
| Accrued salaries | 486,929 | - | 486,929 |
| Transient bond deposits | <u>1,000</u> | <u>-</u> | <u>1,000</u> |
| Total liabilities | <u>648,656</u> | <u>140,776</u> | <u>789,432</u> |
| FUND BALANCES | | | |
| Nonspendable | - | - | - |
| Restricted | - | 3,816,553 | 3,816,553 |
| Committed | 2,208,931 | 291,224 | 2,500,155 |
| Assigned | 149,616 | 440,232 | 589,848 |
| Unassigned | <u>10,232,629</u> | <u>-</u> | <u>10,232,629</u> |
| Total fund balances | <u>12,591,176</u> | <u>4,548,009</u> | <u>17,139,185</u> |
| Total liabilities and fund balances | <u>\$ 13,239,832</u> | <u>\$ 4,688,785</u> | <u>\$ 17,928,617</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, 2017

| | |
|--|----------------------------|
| Total fund balance - total governmental funds | \$ 17,139,185 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Taxes receivable based on availability criteria; \$40,017 property taxes, \$170,542 insurance premium taxes, and \$17,403 franchise taxes. | 227,962 |
| Deferred outflows of resources - bond refinancing charges, amortizable over life of debt | 49,217 |
| 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. | 9,028,285 |
| Capital assets of \$73,799,059, net of accumulated depreciation of (\$33,609,358), are not financial resources and, therefore, are not reported in the funds. See note 4 to financial statements for detail. | 40,189,701 |
| 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 \$464,796 are included in governmental activities in the statement of net position. | 464,796 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. See note 10 to financial statements for detail. | (90,040,847) |
| Receivables from component units for long-term debt where the City is contingently liable are not reported in the funds. | 28,640,070 |
| Accrued interest | <u>(299,691)</u> |
| Net position of governmental activities | <u><u>\$ 5,398,678</u></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, 2017

| | <u>Major Fund</u> | Other | Total |
|---|----------------------|-----------------------|-----------------------|
| | General | Governmental Funds | Governmental Funds |
| REVENUES | | | |
| Taxes | \$ 5,793,917 | \$ - | \$ 5,793,917 |
| Licenses and permits | 23,526,346 | - | 23,526,346 |
| Fines and forfeits | 73,980 | - | 73,980 |
| Intergovernmental | 3,171,351 | 1,817,973 | 4,989,324 |
| Investment income | 112,053 | 31 | 112,084 |
| Donations | - | 50 | 50 |
| Other | <u>972,902</u> | <u>49,831</u> | <u>1,022,733</u> |
| Total revenues | <u>33,650,549</u> | <u>1,867,885</u> | <u>35,518,434</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 3,641,494 | 28,505 | 3,669,999 |
| Public safety | 16,279,627 | 743,396 | 17,023,023 |
| Public works | 5,188,272 | 116,269 | 5,304,541 |
| Community development | 6,679,244 | 185,508 | 6,864,752 |
| Parks and recreation | 1,025,149 | 31,895 | 1,057,044 |
| Debt service: | | | |
| Principal | 1,087,083 | 291,258 | 1,378,341 |
| Interest | 559,118 | 49,027 | 608,145 |
| Expenditures | 89,864 | - | 89,864 |
| Capital outlays | <u>342,540</u> | <u>1,956,489</u> | <u>2,299,029</u> |
| Total expenditures | <u>34,892,391</u> | <u>3,402,347</u> | <u>38,294,738</u> |
| Excess of revenues over (under) expenditures | <u>(1,241,842)</u> | <u>(1,534,462)</u> | <u>(2,776,304)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers from other funds | - | 1,987,370 | 1,987,370 |
| Transfers to other funds | (2,077,767) | (9,603) | (2,087,370) |
| Premium on bond issue | 19,864 | - | 19,864 |
| Issuance of long-term debt | <u>5,345,705</u> | <u>-</u> | <u>5,345,705</u> |
| Total other financing sources (uses) | <u>3,287,802</u> | <u>1,977,767</u> | <u>5,265,569</u> |
| Net change in fund balances | 2,045,960 | 443,305 | 2,489,265 |
| Fund balances, beginning of year | <u>10,545,216</u> | <u>4,104,704</u> | <u>14,649,920</u> |
| Fund balances, end of year | <u>\$ 12,591,176</u> | <u>\$ 4,548,009</u> | <u>\$ 17,139,185</u> |

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

City of Hopkinsville, Kentucky
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ 2,489,265 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$2,299,029 was exceeded by depreciation of (\$2,954,360) in the current period. | (655,331) |
| Issuance of debt is revenue in the governmental funds, but the debt increases long-term liabilities in the statement of net position. | (2,989,864) |
| Certain imposed nonexchange revenues were not recognized in the governmental funds because they were not available at June 30, 2017. The change in this account balance is a reconciling item for this statement. | (186,813) |
| 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 \$57,517 is reported with governmental activities. | 57,517 |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 1,378,341 |
| Changes in net pension liability obligations and related deferred outflows and inflows of resources are an obligation not payable from current year resources and not reported as an expenditure of the current year. In the statement of activities, these costs represent expenses of the current year. | 1,624,314 |
| 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 \$5,744 with an overall gain of \$1,865. | (3,879) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These include the increase in compensated absences of (\$71,982), increase in accrued interest of (\$63,772), amortization of deferred charges of (\$2,799), and amortization of debt premium/(discount) net of \$15,421, and miscellaneous adjustments (\$3,295). | <u>(126,427)</u> |
| Change in net position of governmental activities | <u>\$ 1,587,123</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, 2017

| | Business-type Activities Enterprise Funds | |
|---|--|--|
| | Major Fund | Governmental |
| | Tie Breaker Family Aquatic | Activities- Internal Service Funds |
| ASSETS | | |
| Current assets: | | |
| Pooled cash and cash equivalents | \$ - | \$ - |
| Non-pooled cash and cash equivalents | 193,018 | 526,398 |
| Accounts receivable | - | - |
| Total current assets | 193,018 | 526,398 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Land and construction in progress | - | - |
| Capital assets, net of accumulated depreciation | 2,842,302 | - |
| Total noncurrent assets | 2,842,302 | - |
| Total assets | \$ 3,035,320 | \$ 526,398 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 13,681 | \$ - |
| Incurred, not yet reported | - | 61,601 |
| Total current liabilities | 13,681 | 61,601 |
| Noncurrent liabilities: | | |
| Total noncurrent liabilities | - | - |
| Total liabilities | 13,681 | 61,601 |
| NET POSITION | | |
| Net investment in capital assets | 2,842,302 | - |
| Unrestricted | 179,337 | 464,797 |
| Total net position | 3,021,639 | 464,797 |
| Total liabilities and net position | \$ 3,035,320 | \$ 526,398 |

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, 2017

| | <u>Business-type Activities</u> <u>Enterprise Funds</u> | |
|---|--|--|
| | <u>Major Fund</u> | <u>Governmental</u> <u>Activities-</u> <u>Internal Service</u> <u>Funds</u> |
| | <u>Tie Breaker</u> <u>Family Aquatic</u> | |
| OPERATING REVENUES | | |
| Charges for services | \$ 283,385 | \$ - |
| Employee contributions | - | 462,926 |
| Employer contributions | - | 1,929,351 |
| Other income | - | - |
| Total operating revenues | <u>283,385</u> | <u>2,392,277</u> |
| OPERATING EXPENSES | | |
| Management contract | 155,213 | - |
| Maintenance | 44,611 | - |
| Marketing | 61,605 | - |
| Operations | 9,489 | - |
| Utilities | 72,925 | - |
| Administrative | - | 177,880 |
| Supplies | 10,596 | - |
| Depreciation | 129,446 | - |
| Claims expense | - | 2,158,483 |
| Total operating expenses | <u>483,885</u> | <u>2,336,363</u> |
| Operating income (loss) | <u>(200,500)</u> | <u>55,914</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 1,052 | 1,603 |
| Gain on sale of equipment | - | - |
| Total nonoperating revenues (expenses) | <u>1,052</u> | <u>1,603</u> |
| Income (loss) before transfers | <u>(199,448)</u> | <u>57,517</u> |
| Transfers in | 100,000 | - |
| Transfers out | - | - |
| Total transfers and capital contributions | <u>100,000</u> | <u>-</u> |
| Change in net position | (99,448) | 57,517 |
| Net position, beginning of year | <u>3,121,087</u> | <u>407,280</u> |
| Net position, end of year | <u>\$ 3,021,639</u> | <u>\$ 464,797</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, 2017

| | Business-type Activities Enterprise Funds | |
|---|--|--|
| | Major Fund | Governmental Activities- Internal Service Funds |
| | Tie Breaker Family Aquatic | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 283,385 | \$ 2,392,277 |
| Other cash receipts | - | - |
| Cash payments to suppliers | (352,323) | (177,880) |
| Cash payments for claims | - | (2,152,813) |
| | <u> </u> | <u> </u> |
| Net cash provided by (used in) operating activities | (68,938) | 61,584 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in | 100,000 | - |
| Transfers out | - | - |
| | <u> </u> | <u> </u> |
| Net cash provided by (used in) noncapital financing activities | 100,000 | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from sale of capital assets | - | - |
| Payments for capital acquisitions | (3,714) | - |
| | <u> </u> | <u> </u> |
| Net cash provided by (used in) capital and related financing activities | (3,714) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 1,052 | 1,603 |
| | <u> </u> | <u> </u> |
| Net cash provided by (used in) investing activities | 1,052 | 1,603 |
| Net increase (decrease) in cash and cash equivalents | 28,400 | 63,187 |
| Cash and cash equivalents, beginning of year | 164,618 | 463,211 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents, end of year | \$ 193,018 | \$ 526,398 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (200,500) | \$ 55,914 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 129,446 | - |
| (Increase) decrease in assets: | | |
| Accounts receivable | - | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 2,116 | - |
| Accrued liabilities | - | 5,670 |
| | <u> </u> | <u> </u> |
| Net cash provided by (used in) operating activities | \$ (68,938) | \$ 61,584 |
| NONCASH CAPITAL ACTIVITIES | | |
| Transfer asset and liabilities to general fund | \$ - | \$ - |

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, 2017**

| | |
|--------------------------------------|-------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 308,853 |
| Interest and dividends receivable | - |
| Investments, at fair value | <u>676,047</u> |
| Total assets | <u>\$ 984,900</u> |
| LIABILITIES | |
| Other accounts payable | <u>\$ -</u> |
| Total liabilities | <u>-</u> |
| NET POSITION | |
| Net position restricted for pensions | <u>\$ 984,900</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, 2017

ADDITIONS

Contributions:

| | |
|----------|------------|
| Employer | \$ 375,000 |
|----------|------------|

Investment earnings:

| | |
|---|----------|
| Net increase (decrease) in fair value of investments | (15,933) |
|---|----------|

| | |
|----------|--------|
| Interest | 14,386 |
|----------|--------|

| | |
|-------|---|
| Other | - |
|-------|---|

| | |
|-------------------------|----------------|
| Net investment earnings | <u>(1,547)</u> |
|-------------------------|----------------|

| | |
|-----------------|---------|
| Total additions | 373,453 |
|-----------------|---------|

DEDUCTIONS

| | |
|---------------|---------|
| Benefits paid | 285,327 |
|---------------|---------|

| | |
|-------------------------|---------------|
| Administrative expenses | <u>14,528</u> |
|-------------------------|---------------|

| | |
|------------------|----------------|
| Total deductions | <u>299,855</u> |
|------------------|----------------|

| | |
|---|--------|
| Net increase (decrease) in net position | 73,598 |
|---|--------|

| | |
|---------------------------------|----------------|
| Net position, beginning of year | <u>911,302</u> |
|---------------------------------|----------------|

| | |
|---------------------------|-------------------|
| Net position, end of year | <u>\$ 984,900</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, 2017

| | Major | | | Total |
|--|---|---|--|-----------------------|
| | Hopkinsville Water Environment Authority | Hopkinsville Solid Waste Enterprise | Hopkinsville Surface and Stormwater Utility | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 8,349,546 | \$ 1,917,729 | \$ 1,899,469 | \$ 12,166,744 |
| Receivables | 1,002,380 | 634,695 | 85,864 | 1,722,939 |
| Inventory | 240,539 | - | - | 240,539 |
| Prepaid insurance | 7,738 | - | - | 7,738 |
| Accrued interest on note receivable | 404 | - | - | 404 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 2,001,799 | 2,859,883 | - | 4,861,682 |
| Investments | - | 244,009 | - | 244,009 |
| Notes receivable | 223,933 | - | - | 223,933 |
| Other receivables | 5,608,881 | - | - | 5,608,881 |
| Other current assets | - | 19,676 | - | 19,676 |
| Capital assets, net of depreciation: | | | | |
| Land and construction in progress | 11,440,101 | 661,280 | 1,223,152 | 13,324,533 |
| Depreciable capital assets | 99,956,383 | 6,394,667 | 6,067,027 | 112,418,077 |
| Net capital assets | <u>111,396,484</u> | <u>7,055,947</u> | <u>7,290,179</u> | <u>125,742,610</u> |
| Total assets | <u>128,831,704</u> | <u>12,731,939</u> | <u>9,275,512</u> | <u>150,839,155</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension | 2,093,995 | 1,227,404 | - | 3,321,399 |
| Deferred refunding costs | <u>556,100</u> | <u>-</u> | <u>-</u> | <u>556,100</u> |
| Total deferred outflows of resources | <u>2,650,095</u> | <u>1,227,404</u> | <u>-</u> | <u>3,877,499</u> |
| Total assets and deferred outflows of resources | <u>\$ 131,481,799</u> | <u>\$ 13,959,343</u> | <u>\$ 9,275,512</u> | <u>\$ 154,716,654</u> |
| LIABILITIES | | | | |
| Current portion of long-term debt | \$ 5,464,534 | \$ - | \$ - | \$ 5,464,534 |
| Payable to City of Hopkinsville, current portion | 1,525,000 | 2,404,044 | 165,000 | 4,094,044 |
| Customer deposits | 97,603 | - | - | 97,603 |
| Accrued interest | 350,914 | - | 49,567 | 400,481 |
| Accounts payable | 226,498 | 194,079 | 17,094 | 437,671 |
| Accounts payable - restricted | - | - | - | - |
| Accrued salaries and compensated absences | 203,819 | 202,443 | - | 406,262 |
| Construction retainage payable | 328,675 | - | - | 328,675 |
| Construction contracts payable | - | - | - | - |
| Long-term liabilities: | | | | |
| Compensated absences | 234,911 | 324,674 | - | 559,585 |
| Revenue bonds payable, net of current portion | 2,601,369 | - | - | 2,601,369 |
| Revenue leases - Planters, net of current portion | 2,934,914 | - | - | 2,934,914 |
| KIA - loans payable, net of current portion | 38,585,354 | - | - | 38,585,354 |
| Payable to City of Hopkinsville, net of current portion | 19,608,168 | 939,076 | 3,998,782 | 24,546,026 |
| Net pension liability | 6,361,838 | 3,761,528 | - | 10,123,366 |
| Accrued landfill closure costs | <u>-</u> | <u>4,965,810</u> | <u>-</u> | <u>4,965,810</u> |
| Total liabilities | <u>78,523,597</u> | <u>12,791,654</u> | <u>4,230,443</u> | <u>95,545,694</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred revenue - USACE | 5,608,881 | - | - | 5,608,881 |
| Pension | <u>165,568</u> | <u>101,930</u> | <u>-</u> | <u>267,498</u> |
| Total deferred inflows of resources | <u>5,774,449</u> | <u>101,930</u> | <u>-</u> | <u>5,876,379</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 40,904,570 | 3,712,827 | 3,126,397 | 47,743,794 |
| Restricted: | | | | |
| Capital projects | - | - | - | - |
| Debt reserves | 2,000,308 | - | - | 2,000,308 |
| Unrestricted (deficit) | <u>4,278,875</u> | <u>(2,647,068)</u> | <u>1,918,672</u> | <u>3,550,479</u> |
| Total net position | <u>47,183,753</u> | <u>1,065,759</u> | <u>5,045,069</u> | <u>53,294,581</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 131,481,799</u> | <u>\$ 13,959,343</u> | <u>\$ 9,275,512</u> | <u>\$ 154,716,654</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 is a municipal corporation governed by an elected mayor and a twelve-member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The City of Hopkinsville has three discretely presented component units.

Discretely Presented Component Units

The Sewerage and 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. 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 9th 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 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.

**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

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, 2017:

| <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 | 844,292 |
| Hopkinsville-Christian County Public Library | 325,330 |

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, 2017:

**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 | 37,853 |

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 activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and 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 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.

**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

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.

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.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

Governmental Funds, continued

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

Police Incentive Fund – established to account for state money restricted for police 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.

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

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

Governmental Funds, continued

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

WINS Construction Fund – established to account for multiple projects and construction that are part of the WINS project.

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

Internal Service Funds – Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a user charge basis. 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,

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

1. Summary of Significant Accounting Policies, continued

C. Fund Accounting, continued

Fiduciary Funds, continued

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 System.

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus although internal activity is not eliminated in these statements. All assets and all liabilities associated with the operation of the City are included on the statement of net position.

Fund Financial Statements

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

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

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

1. Summary of Significant Accounting Policies, continued

E. Basis of Accounting

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

For all proprietary fund types, it is required that the statement of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are revenues generated or expenses incurred from providing goods and services. Nonoperating revenues are those not derived from the basic operations of a business. Nonoperating expenses are expenses incurred in the performance of activities not directly related to supplying the basic service of the entity.

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

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

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

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

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

1. Summary of Significant Accounting Policies, continued

E. Basis of Accounting, continued

Deferred Revenue

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

Expenses/Expenditures

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

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

F. Deposits and Investments

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

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

Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial 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. In addition, the City is insured under FDIC up to \$250,000 at each bank.

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

G. Receivables

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

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

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 "Equipment Maintenance and Replacement" account is used to report resources set aside for unusual or extraordinary maintenance, repairs, renewals and/or replacements or extensions, additions and/or improvements. The "Construction" account is used to report bond proceeds restricted for use in the cost of future expansion and rehabilitation.

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. Interest incurred during the construction of capital assets is capitalized for business-type activities; however, interest is not capitalized in connection with the construction of capital assets used in governmental activities. Upon implementation of GASB 34, the infrastructure previously

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

1. Summary of Significant Accounting Policies, continued

K. Capital Assets, continued

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 Improvement | 15-40 Years |
| Equipment | 5-7 Years |
| Vehicles | 5-7 Years |
| Infrastructure | 20-99 Years |

L. Interest Capitalization

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

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due To/Due From Other Funds". These amounts are eliminated in the governmental activities column of the statement of net position.

N. Compensated Absences

The City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2017.

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

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

1. Summary of Significant Accounting Policies, continued

N. Compensated Absences, continued

For governmental funds, the liability is not reported unless the compensated absences have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement). The proprietary funds report the liability as it is incurred.

O. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the fund. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

P. 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.

There City issued new bonds during the year to finance a grant to Thompson Thrift Development, Inc. for the construction of a retail development.

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.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, continued

R. Fund Balance

The City follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, by ordinance approved by City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City takes action to remove or change the constraint.
- Assigned fund balance – amounts the City constrained by the City's intent to be used for specific purposes (such as encumbrances), but are neither restricted nor committed. Intent is expressed by the City Council or by any other official or body to which the City Council has delegated the authority to assign amounts to be used for a specific purpose.
- Unassigned fund balance – amounts that are available for any purpose. 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, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 25% of the actual GAAP (Generally Accepted Accounting Principles) basis expenditures and other financing sources and uses.

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

1. Summary of Significant Accounting Policies, continued

S. Net Position

Net position represents the difference between assets and liabilities. 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.
- *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.

Solid Waste had a deficit unrestricted net position of \$2,647,068. The deficit is caused primarily due to the accrual of landfill closure costs and net pension liability that are expected to be funded in future years. Solid Waste expects results from future operations to fund such costs.

T. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (“CERS”) and additions to/deductions from 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.

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

1. Summary of Significant Accounting Policies, continued

U. 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.

V. 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.

W. 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.

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.

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

2. Deposits and Investments, continued

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, 2017, the City did not have any deposited funds exposed to custodial credit risk.

As of June 30, 2017, HWEA did not have any deposited funds exposed to custodial credit risk.

As of June 30, 2017, Solid Waste did not have any deposited funds exposed to custodial credit risk.

As of June 30, 2017, Stormwater did not have any deposited funds exposed to custodial credit risk.

B. Investments

The investments for City of Hopkinsville consisted of the following as of June 30, 2017:

| <u>Investments as of June 30, 2017</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 | \$ 35,181 | \$ - | 2.20 Years |
| Federal Farm Credit Banks Bond | N/A | - | 74,292 | 9.70 Years |
| Discover Bank CD | N/A | - | 150,630 | 2.04 Years |
| Goldman Sachs Bank CD | N/A | - | 101,448 | 4.34 Years |
| Sallie Mae CD | N/A | - | 50,473 | 1.34 Years |
| FL Hurricane Catastrophe Fund | N/A | - | 51,105 | 3.00 Years |
| Nassau Co NY Inter Fin Rev Bond | N/A | - | 50,399 | 4.38 Years |
| Kansas City MO Spl Obl Rev Bond | N/A | - | 48,196 | 10.25 Years |
| Indianapolis Ind Loc Pub Rev Bond | N/A | - | 48,304 | 4.38 Years |
| Nevada Sys Higher Edu Bond | N/A | - | 51,438 | 7.00 Years |
| University Hawaii Rev Bond | N/A | - | 49,762 | 10.25 Years |
| Federated US Gov't Sec Fund: 2-5 Years | AAA | 166,915 | - | 3.50 Years |
| Federated Total Return Gov't Bond Fund | AAA | 152,347 | - | 7.10 Years |
| Ishares Barclays US Treas Infl Prot Sec Fd | AAA | 120,349 | - | 8.30 Years |
| Ishares Barclays 10-20 Yr Treasury Bond Fd | AAA | 46,376 | - | 13.85 Years |
| Ishares Barclays 3-7 Yr Treasury Bond Fund | AAA | <u>121,222</u> | <u>-</u> | 4.80 Years |
| Total Credit Risk Debt Securities | | <u>\$ 642,390</u> | <u>\$ 676,047</u> | |

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

2. Deposits and Investments, continued

B. Investments, continued

The investments for Solid Waste consisted of the following as of June 30, 2017:

| <u>Investments as of June 30, 2017</u> | <u>Average Credit Quality/Rating</u> | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Average Maturity</u> |
|--|--|-----------------------|-------------------|-----------------------------|
| Heritage Bank CD | N/A | \$ 244,009 | \$ 244,009 | 12 mo. |
| Total Credit Risk Debt Securities | | <u>\$ 244,009</u> | <u>\$ 244,009</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, 2017, none of the City's investments were subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no investment policy that limits its investment choices other than the limitations of Kentucky Revised Statute 66.480 that permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial 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.

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

2. Deposits and Investments, continued

B. Investments, continued

Foreign Currency Risk

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

C. Restricted Assets

The balances of the City's restricted asset accounts are as follows as of June 30, 2017:

| | |
|--|----------------------|
| <u>Due from Component Units:</u> | |
| Hopkinsville Water Environment Authority | \$ 21,133,168 |
| Hopkinsville Solid Waste Enterprise | 3,343,120 |
| Hopkinsville Surface & Stormwater Utility | <u>4,163,782</u> |
| Restricted assets - due from component units | <u>\$ 28,640,070</u> |
| <u>Temporarily restricted:</u> | |
| Debt proceeds in checking | \$ 1,334,328 |
| Money market funds, expendable trust | 105,196 |
| Investments, expendable trust | <u>239,710</u> |
| Restricted assets - temporarily | <u>\$ 1,679,234</u> |
| <u>Permanently restricted:</u> | |
| Money market funds, non-expendable trust | \$ 71,426 |
| Investments, non-expendable trust | <u>367,499</u> |
| Restricted assets - permanently | <u>\$ 438,925</u> |

The balances of HWEA's expendable restricted asset accounts are as follows as of June 30, 2017:

| | |
|---------------------------------------|---------------------|
| Construction | \$ 1,491 |
| Equipment maintenance and replacement | <u>2,000,308</u> |
| Total restricted assets | <u>\$ 2,001,799</u> |

The equipment maintenance and replacement fund includes \$2,000,308 set aside to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority. The construction fund includes \$1,491 of unspent bond proceeds from the 2013B and 2014B general obligation bonds that were issued by the City on behalf of HWEA.

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

2. Deposits and Investments, continued

C. Restricted Assets, continued

The balances of Solid Waste's restricted asset accounts are as follows as of June 30, 2017:

| | |
|-------------------------|---------------------|
| Landfill closure costs | \$ 244,009 |
| Capital reserve | <u>2,859,883</u> |
| Total restricted assets | <u>\$ 3,103,892</u> |

3. Property Taxes

Property taxes attach as an enforceable lien on property and are levied as of July 1 each year. These taxes are not accrued at June 30 of each year since they are not measurable at that time. The tax rate and assessed valuation are not known until September of 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 purposes for the year ended June 30, 2017, 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.

**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, 2017, is as follows:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|-------------------------|---------------------|-----------------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,933,350 | \$ - | \$ - | \$ 1,933,350 |
| Construction in Progress | 4,679,697 | 423,088 | - | 5,102,785 |
| Total Capital Assets Not Being Depreciated | <u>6,613,047</u> | <u>423,088</u> | <u>-</u> | <u>7,036,135</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Improvements | 20,564,767 | 227,577 | - | 20,792,344 |
| Equipment | 8,401,360 | 923,191 | 42,961 | 9,281,590 |
| Infrastructure | 20,629,408 | 252,018 | - | 20,881,426 |
| Land Improvements | 9,527,723 | 122,843 | - | 9,650,566 |
| Vehicles | 5,809,978 | 347,019 | - | 6,156,997 |
| Total Capital Assets Being Depreciated | <u>64,933,236</u> | <u>1,872,648</u> | <u>42,961</u> | <u>66,762,923</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 4,814,467 | 586,160 | - | 5,400,627 |
| Equipment | 5,706,127 | 533,388 | 39,082 | 6,200,433 |
| Infrastructure | 13,018,491 | 836,566 | - | 13,855,057 |
| Land Improvements | 2,948,424 | 467,149 | - | 3,415,573 |
| Vehicles | 4,206,570 | 531,097 | - | 4,737,667 |
| Total Accumulated Depreciation | <u>30,694,079</u> | <u>2,954,360</u> | <u>39,082</u> | <u>33,609,357</u> |
| Total | <u>\$ 40,852,204</u> | <u>\$ (658,624)</u> | <u>\$ 3,879</u> | <u>\$ 40,189,701</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, 2017, was as follows:

| | |
|----------------------------|--------------------|
| General Government | \$ 418,977 |
| Public Safety | 876,531 |
| Public Works | 1,052,498 |
| Community Development | 313,026 |
| Parks and Recreation | <u>293,328</u> |
| Total depreciation expense | <u>\$2,954,360</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, 2017, is as follows:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|-------------------------|---------------------|-------------|--------------------------|
| <u>Business-type Activities</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ - | \$ - | \$ - | \$ - |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Improvements | 3,792,630 | - | - | 3,792,630 |
| Equipment | 349,189 | 3,715 | - | 352,904 |
| Total Capital Assets Being Depreciated | <u>4,141,819</u> | <u>3,715</u> | <u>-</u> | <u>4,145,534</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 881,279 | 96,177 | - | 977,456 |
| Equipment | 292,507 | 33,269 | - | 325,776 |
| Total Accumulated Depreciation | <u>1,173,786</u> | <u>129,446</u> | <u>-</u> | <u>1,303,232</u> |
| Total | <u>\$ 2,968,033</u> | <u>\$ (125,731)</u> | <u>\$ -</u> | <u>\$ 2,842,302</u> |

Depreciation expense (including amortization of capitalized assets) charged to business-type activities for the year ended June 30, 2017, was \$129,446.

A summary of HWEA's business-type activities property, plant and equipment activity for the year ended June 30, 2017, is as follows:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| <u>Business-type Activities</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,571,840 | \$ - | \$ - | \$ 1,571,840 |
| Construction in Progress | 7,431,951 | 6,590,831 | 4,154,521 | 9,868,261 |
| Total Capital Assets Not Being Depreciated | <u>9,003,791</u> | <u>6,590,831</u> | <u>4,154,521</u> | <u>11,440,101</u> |
| Capital Assets Being Depreciated: | | | | |
| Structures and Improvements | 160,377,505 | 4,934,251 | 10,177 | 165,301,579 |
| Equipment | 9,800,996 | 170,939 | 55,790 | 9,916,145 |
| Vehicles | 1,311,355 | 96,138 | 64,573 | 1,342,920 |
| Total Capital Assets Being Depreciated | <u>171,489,856</u> | <u>5,201,328</u> | <u>130,540</u> | <u>176,560,644</u> |
| Less Accumulated Depreciation: | | | | |
| Structures and Improvements | 63,381,164 | 3,853,196 | 4,626 | 67,229,734 |
| Equipment | 8,488,356 | 408,039 | 13,191 | 8,883,204 |
| Vehicles | 416,231 | 126,553 | 51,461 | 491,323 |
| Total Accumulated Depreciation | <u>72,285,751</u> | <u>4,387,788</u> | <u>69,278</u> | <u>76,604,261</u> |
| Total | <u>\$ 108,207,896</u> | <u>\$ 7,404,371</u> | <u>\$ 4,215,783</u> | <u>\$ 111,396,484</u> |

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

4. Capital Assets, continued

Depreciation expense (including amortization of capitalized assets) for HWEA for the year ended June 30, 2017, was \$4,387,788.

A summary of Solid Waste business-type activities property, plant and equipment activity for the year ended June 30, 2017, is as follows:

| <u>Business-type Activities</u> | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|-------------------------|---------------------|-------------------|--------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 615,582 | \$ - | \$ - | \$ 615,582 |
| Construction in Progress | - | 45,698 | - | 45,698 |
| Total Capital Assets Not Being Depreciated | <u>615,582</u> | <u>45,698</u> | <u>-</u> | <u>661,280</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Improvements | 734,329 | - | 12,050 | 722,279 |
| Equipment | 7,994,242 | 3,390,798 | 2,463,644 | 8,921,396 |
| Land Improvements | 1,947,530 | - | - | 1,947,530 |
| Total Capital Assets Being Depreciated | <u>10,676,101</u> | <u>3,390,798</u> | <u>2,475,694</u> | <u>11,591,205</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 85,863 | 16,481 | 10,410 | 91,934 |
| Equipment | 4,868,504 | 962,752 | 1,576,994 | 4,254,262 |
| Land Improvements | 722,454 | 127,888 | - | 850,342 |
| Total Accumulated Depreciation | <u>5,676,821</u> | <u>1,107,121</u> | <u>1,587,404</u> | <u>5,196,538</u> |
| Total | <u>\$ 5,614,862</u> | <u>\$ 2,329,375</u> | <u>\$ 888,290</u> | <u>\$ 7,055,947</u> |

Depreciation expense (including amortization of capitalized assets) for Solid Waste for the year ended June 30, 2017, was \$1,107,121.

A summary of Stormwater business-type activities property, plant and equipment activity for the year ended June 30, 2017, is as follows:

| <u>Business-type Activities</u> | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 796,998 | \$ 8 | \$ - | \$ 797,006 |
| Construction in Progress | 1,503,477 | 96,022 | 1,173,353 | 426,146 |
| Total Capital Assets Not Being Depreciated | <u>2,300,475</u> | <u>96,030</u> | <u>1,173,353</u> | <u>1,223,152</u> |
| Capital Assets Being Depreciated: | | | | |
| Infrastructure | 5,938,315 | 1,271,203 | - | 7,209,518 |
| Less Accumulated Depreciation: | | | | |
| Infrastructure | 871,201 | 271,290 | - | 1,142,491 |
| Total | <u>\$ 7,367,589</u> | <u>\$ 1,095,943</u> | <u>\$ 1,173,353</u> | <u>\$ 7,290,179</u> |

Depreciation expense (including amortization of capitalized assets) for Stormwater for the year ended June 30, 2017, was \$271,290.

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

5. Post-Retirement Benefits

Earned but unused vacation hours are converted to terminal pay at retirement. Prior to April 1, 2002, accumulated sick leave could be taken as terminal pay at the rate of four sick days per one day's wages. Effective April 1, 2002, the City Council authorized adoption of the Order of Participation with the Kentucky Retirement System, which established the Standard Unused Sick Leave Program. This Program provides for 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. Currently, the rate is approximately 38% of the total unused sick time times the member's pay rate.

6. Pension Plans

The City participates in the County Employees Retirement System (CERS), 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) which covers certain retired public safety employees.

A. County Employees Retirement System

Plan Description:

The City contributes to CERS, a multi-employer, cost sharing, defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement Systems, which issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at <https://kyret.ky.gov>. HWEA and Solid Waste also contribute to CERS.

Benefits Provided:

CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the Kentucky (State) legislature. State statute assigns the authority to establish and amend benefit provisions to the Kentucky Retirement Systems Board of Trustees.

Contributions:

CERS plan members classified as nonhazardous hired prior to September 1, 2008, contribute 5% of their annual creditable compensation, and those hired on or after September 1, 2008, contribute 6% of the annual creditable compensation. For nonhazardous employees, the City contributed 18.68% of annual covered payroll for fiscal

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

Contributions, continued:

year 2017. Employees classified as hazardous hired prior to September 1, 2008, contribute 8% of their annual creditable compensation, and those hired on or after September 1, 2008, contribute 9%. For hazardous employees, the City contributed 31.06% of annual covered payroll for fiscal year 2017. The contribution requirements of plan members and the City are established and may be amended by the Kentucky Retirement Systems Board of Trustees. The City's contributions to CERS were \$714,562 for nonhazardous employees and \$2,880,492 for hazardous employees for the year ended June 30, 2017. HWEA's contributions to CERS were \$618,705 for nonhazardous employees for the year ended June 30, 2017. Solid Waste's contributions to CERS were \$405,369 for nonhazardous employees for the year ended June 30, 2017. HWEA and Solid Waste do not have any employees classified as hazardous.

Net Pension Liabilities:

At June 30, 2017, the City reported a total liability of \$35,234,123 for its proportionate share of the net pension liability (NPL). Of this total liability, \$7,285,140 pertained to nonhazardous employees, and \$27,948,983 pertained to hazardous employees. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the City's proportion was 0.147963% for nonhazardous pensions and 1.628784% for hazardous pensions.

The City's net pension liability is shown on the statement of net position as a noncurrent liability. See Note 10.

At June 30, 2017, HWEA reported a liability of \$6,361,838 for its proportionate share of the net pension liability, all of which pertained to nonhazardous pensions. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. HWEA's proportion of the net pension liability was based on a projection of HWEA's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, HWEA's proportion was 0.129211% for nonhazardous pensions. HWEA's net pension liability is shown on the statement of net position – component units as a noncurrent liability.

At June 30, 2017, Solid Waste reported a liability of \$3,761,528, for its proportionate share of the net pension liability, all of which pertained to nonhazardous pensions. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Solid Waste's proportion of the net pension liability was based on a projection of the Solid

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

Net Pension Liabilities, continued:

Waste's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Solid Waste's proportion was 0.076398% for nonhazardous pensions. Solid Waste's net pension liability is shown on the statement of net position – component units as a noncurrent liability.

The following is a summary of net pension liability shown on the statement of net position as of June 30, 2017, included in noncurrent liabilities, due after one year:

| | <u>Net Pension Liability</u> |
|------------------------------|------------------------------|
| <u>City of Hopkinsville:</u> | |
| CERS: | |
| Nonhazardous | \$ 7,285,140 |
| Hazardous | <u>27,948,983</u> |
| Total City of Hopkinsville | <u>\$ 35,234,123</u> |
| <u>Component Units:</u> | |
| HWEA | <u>\$ 6,361,838</u> |
| Solid Waste | <u>\$ 3,761,528</u> |

Actuarial Assumptions and Other Inputs:

The total pension liability was determined by an actuarial valuation as of June 30, 2016 using standard roll-forward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|----------------------------|--|--|
| Inflation: | 3.25% | |
| Salary increases: | 4.00%, average, including inflation | |
| Investment rate of return: | 7.50%, net of pension plan investment expense, including inflation | |

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

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

6. Pension Plans, continued

A. County Employees Retirement System, continued

Actuarial Assumptions and Other Inputs, continued:

mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008, to June 30, 2013.

Changes in Assumptions:

Since the prior measurement date of June 30, 2015, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated. The changes in assumptions include the following:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

Discount Rate:

- a. Discount rate: The discount rate used to measure the total pension liability was 7.50%.
- b. Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- c. Long-term rate of return: The long-term expected 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. These ranges were combined to produce the long-term expected rate of return by weighting the

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

Discount Rate, continued:

c. Long-term rate of return, continued:

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 timeframe. 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.

d. Municipal bond rate: The discount rate determination does not use a municipal bond rate.

e. Periods of projected benefit payments: Projected future benefit payments for all plan members were projected through 2117.

f. Assumed asset allocation: 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> |
|---|--------------------------|---|
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income | 19% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.50% |
| Real Estate | 5% | 4.50% |
| Absolute Return (Diversified Hedge Funds) | 10% | 4.25% |
| Private Equity | 10% | 8.50% |
| Cash Equivalent | <u>2%</u> | -0.25% |
| Total | <u>100%</u> | |

g. Sensitivity analysis: The following presents the City's net pension liability for its pension plan, calculated using the current discount rate, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

Discount Rate, continued:

g. Sensitivity analysis, continued:

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|-------------------------------------|------------------------|--------------------------------------|------------------------|
| <u>City of Hopkinsville:</u> | | | |
| <u>CERS Nonhazardous:</u> | | | |
| Discount rate | 6.50% | 7.50% | 8.50% |
| Proportionate Share NPL | <u>\$9,078,464</u> | <u>\$7,285,140</u> | <u>\$5,747,904</u> |
| <u>CERS Hazardous:</u> | | | |
| Discount rate | 6.50% | 7.50% | 8.50% |
| Proportionate Share NPL | <u>\$35,112,074</u> | <u>\$27,948,983</u> | <u>\$22,040,673</u> |
| <u>Component Units:</u> | | | |
| HWEA: | | | |
| <u>CERS Nonhazardous:</u> | | | |
| Discount rate | 6.50% | 7.50% | 8.50% |
| Proportionate Share NPL | <u>\$7,927,880</u> | <u>\$6,361,838</u> | <u>\$5,019,428</u> |
| Solid Waste: | | | |
| <u>CERS Nonhazardous:</u> | | | |
| Discount rate | 6.50% | 7.50% | 8.50% |
| Proportionate Share NPL | <u>\$4,687,473</u> | <u>\$3,761,528</u> | <u>\$2,967,809</u> |

Pension Plan Fiduciary Net Position:

Detailed information about the CERS pension plan fiduciary net position is available in the separately issued Kentucky Retirement Systems' financial report.

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

For the year ended June 30, 2017, the City recognized additional pension expense (income) for CERS of (\$565,950), which consists of (\$4,957) for nonhazardous pensions and (\$560,993) for hazardous pensions. For the year ended June 30, 2017, HWEA recognized additional pension expense for CERS of \$189,870 for nonhazardous pensions, and Solid Waste recognized additional pension expense for CERS of \$14,523 for nonhazardous pensions.

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

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

At June 30, 2017, 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 | \$ 56,748 | \$ - |
| Hazardous | <u>652,307</u> | <u>-</u> |
| | <u>709,055</u> | <u>-</u> |
| Net difference between projected and actual earnings on pension plan investments | | |
| Nonhazardous | 581,668 | 207,858 |
| Hazardous | <u>1,981,564</u> | <u>784,983</u> |
| | <u>2,563,232</u> | <u>992,841</u> |
| Change in assumptions: | | |
| Nonhazardous | 688,579 | - |
| Hazardous | <u>2,595,370</u> | <u>-</u> |
| | <u>3,283,949</u> | <u>-</u> |
| Change in proportionate share: | | |
| Nonhazardous | 120,479 | - |
| Hazardous | <u>-</u> | <u>286,981</u> |
| | <u>120,479</u> | <u>286,981</u> |
| City contributions subsequent to the measurement date of June 30, 2016: | | |
| Nonhazardous | 714,562 | - |
| Hazardous | <u>2,880,492</u> | <u>-</u> |
| | <u>3,595,054</u> | <u>-</u> |
| Total | <u>\$10,271,769</u> | <u>\$1,279,822</u> |

The \$3,595,054 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the following measurement period.

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the CERS pension will be recognized in pension expense as follows:

| | |
|----------------------|---------------------|
| Year ending June 30: | |
| 2018 | \$ 1,281,145 |
| 2019 | 1,281,145 |
| 2020 | 1,777,195 |
| 2021 | 1,057,408 |
| 2022 | - |
| | <u>\$ 5,396,893</u> |

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

At June 30, 2017, HWEA reported deferred outflows of resources and deferred inflows of resources related to the 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 | \$ 47,557 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 505,793 | 165,568 |
| Change in assumptions | 577,063 | - |
| Change in proportionate share | 344,877 | - |
| HWEA contributions subsequent to the measurement date of June 30, 2016 | <u>618,705</u> | <u>-</u> |
| Total | <u>\$ 2,093,995</u> | <u>\$ 165,568</u> |

The \$618,705 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date of June 30, 2016, 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 pensions will be recognized in pension expense as follows:

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

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

| | | |
|----------------------|----|---------------------|
| Year ending June 30: | | |
| 2018 | \$ | 321,070 |
| 2019 | | 321,070 |
| 2020 | | 403,854 |
| 2021 | | 263,728 |
| 2022 | | - |
| | | <u>\$ 1,309,722</u> |

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

At June 30, 2017, Solid Waste reported deferred outflows of resources and deferred inflows of resources related to the 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 | \$ 28,790 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 299,781 | 101,930 |
| Change in assumptions | 349,332 | - |
| Change in proportionate share | 144,132 | - |
| Solid Waste contributions subsequent to the measurement date of June 30, 2016 | <u>405,369</u> | <u>-</u> |
| Total | <u>\$ 1,227,404</u> | <u>\$ 101,930</u> |

The \$405,369 reported as deferred outflows of resources related to pensions resulting from Solid Waste's contributions subsequent to the measurement date of June 30, 2016, 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 pensions will be recognized in pension expense as follows:

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

6. Pension Plans, continued

A. County Employees Retirement System, continued

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

| | |
|----------------------|-------------------|
| Year ending June 30: | |
| 2018 | \$ 176,328 |
| 2019 | 176,444 |
| 2020 | 227,348 |
| 2021 | 139,985 |
| 2022 | - |
| | <u>\$ 720,105</u> |

In the tables 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 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 department 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 the County Employees Retirement System (CERS). Approximately 98 employees elected to convert from the PFPF coverage. 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 at the end of this note.

Plan Membership:

As of June 30, 2017, PFPF had eighteen members, all of whom are inactive participants (retirees and beneficiaries) receiving benefits.

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:

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

6. Pension Plans, continued

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

Benefits Provided, continued:

| <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).
- 3) Death of a retired or disabled 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. Pension Plans, continued

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

Benefits Provided, continued:

- 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 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, 2017.

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, 2017, the City made a contribution of \$375,000. 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".

Net Pension Liability:

The City's net pension liability (asset) was measured as of January 1, 2017, and the total net pension liability (asset) was determined by an actuarial valuation as of that date.

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

6. Pension Plans, continued

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

Actuarial Assumptions and Other Inputs:

The total pension liability as of the January 1, 2017, actuarial valuation 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 |
| Mortality Rates | 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) |
| 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 – 3.71% 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.
- 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.

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

6. Pension Plans, continued

B. Policemen’s and Firefighter’s Pension Fund, continued

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-2016 (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-2016 (male and female scales). The reason for the change was to better recognize current and future mortality improvements.

The discount rate was previously 4.00%, whereas the current discount rate is 3.71%. This change was in recognition of the 20 Year High Grade Bond Rate Environment as of the valuation date.

The COLA adjustment was previously 2.25%, whereas the current adjustment is 1.75%. The reason for this change was to better recognize expected future COLA adjustments.

Sensitivity Analysis:

The following presents the net pension liability (asset) of the City calculated using the discount rate of 3.71%, as well as the net pension liability (asset) if calculated using a discount rate that is 1 percentage point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate:

| | 1% Decrease <u>(2.71%)</u> | Current Rate <u>(3.71%)</u> | 1% Increase <u>(4.71%)</u> |
|-----------------------|-------------------------------|--------------------------------|-------------------------------|
| Net pension liability | <u>\$2,607,164</u> | <u>\$2,273,840</u> | <u>\$1,989,127</u> |

The components of the net pension liability of the Policemen’s and Firefighter’s Pension Fund at June 30, 2017, were as follows:

| | |
|---|---------------------|
| Total Pension Liability | \$ 3,396,757* |
| Plan Fiduciary Net Position | <u>(1,122,917)</u> |
| City’s Net Pension Liability | <u>\$ 2,273,840</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 33.06% |

*Assumes 1.75% per annum COLAs.

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

6. 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, 2017, the City recognized pension expense (income) of (\$683,364) for the Policemen’s and Firefighter’s Pension Fund. At June 30, 2017, the City recognized deferred outflows of resources and deferred inflows of resources related to PFPF pensions from the following sources (note, any contributions made to the plan between July 1, 2016 and June 30, 2017, 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>36,338</u> | <u>-</u> |
| Total | <u>\$36,338</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 pensions will be recognized in pension expense as follows:

| Year Ending June 30: | |
|----------------------|------------------|
| 2018 | \$ 11,508 |
| 2019 | 11,507 |
| 2020 | 8,638 |
| 2021 | 4,685 |
| 2022 | - |
| | <u>\$ 36,338</u> |

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

7. Interfund Receivables and Payables

There were no interfund receivables or payables among the governmental funds at June 30, 2017.

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

8. Construction Commitments

At June 30, 2017, the City had the following material construction projects underway:

| <u>Project</u> | <u>Approx. Cost-to-Date</u> | <u>Estimated Cost to Complete</u> |
|--------------------------------------|---------------------------------|---------------------------------------|
| Renovations of Parks | \$ 1,182,000 | \$ 318,000 |
| Boys & Girls Club Teen Center | 262,000 | 156,000 |
| Disc Golf Course | 11,500 | 13,500 |
| Thomas St Rec Dept Restroom Addition | 11,500 | 113,500 |
| WINS Projects | <u>85,500</u> | <u>10,890,000</u> |
| Total | <u>\$ 1,552,500</u> | <u>\$ 11,491,000</u> |

At June 30, 2017, HWEA had the following material construction projects underway:

| <u>Project</u> | <u>Approx. Cost-to-Date</u> | <u>Estimated Cost to Complete</u> |
|---|---------------------------------|---------------------------------------|
| Water Tank Rehab Project | \$ 103,000 | \$ 2,620,000 |
| Water Plant – HVAC Renovation | 8,000 | 112,000 |
| Southpark Water Tank Project | 9,000 | 3,828,000 |
| US 41A Water Main Extension-L.G. to I24 | - | 2,993,000 |
| Water Main Extension – Eagle Way | 2,122,000 | 1,826,000 |
| FTC 8" Water Main Extension | 3,985,000 | 110,000 |
| Natural Gas Project – Phase 1 | 1,666,000 | - |
| Natural Gas Project – Phase 2 | 1,562,000 | 8,191,000 |
| Oak Grove – Phase 2 – Patton/Derby/G.H. | 15,000 | 73,000 |
| Hammond-Wood Phase 8 | 131,000 | 1,298,000 |
| Phase 7 Priority 2 Sewer Rehab | <u>28,000</u> | <u>1,217,000</u> |
| Total | <u>\$ 9,629,000</u> | <u>\$ 22,268,000</u> |

At June 30, 2017, 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 | \$ 46,000 | \$ 780,000 |
| Maintenance Building Construction | <u>-</u> | <u>380,000</u> |
| Total | <u>\$ 46,000</u> | <u>\$ 1,160,000</u> |

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

8. Construction Commitments, continued

At June 30, 2017, Stormwater had the following material construction projects underway:

| <u>Project</u> | <u>Approx. Cost-to-Date</u> | <u>Estimated Cost to Complete</u> |
|---|---------------------------------|---------------------------------------|
| 7 th Street at Greenville Rd | \$ 30,000 | \$ 255,000 |
| Sanderson at UHA | 19,000 | 185,000 |
| 9 th Street at Railroad | 30,000 | 366,000 |
| S. Main/Cox Mill at Railroad | 31,000 | 326,000 |
| Project A | 220,000 | 5,000,000 |
| SF Little River Watershed | <u>33,000</u> | <u>44,500</u> |
| Total | <u>\$ 363,000</u> | <u>\$ 6,176,500</u> |

9. Deferred Outflows and Inflows of Resources

The City reports a decrease in net assets that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. The 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) the pension plan. 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 plan will be recognized as pension expense in future years.

The City reports an increase in net assets that relate 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 plan. 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 contributions to the pension plan. 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 life of the refunded or refunding debt. Deferred outflows relating to the pension plan will be recognized as a reduction of the net pension liability in a subsequent year.

The deferred inflows of resources for HWEA include deferred inflows associated with its pension plan 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.

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

9. Deferred Outflows and Inflows of Resources, continued

The deferred outflows of resources for Solid Waste include deferred amounts arising from the pension plan. The deferred outflows of resources associated with the pension plan will be recognized in pension expense in future years.

The deferred inflows of resources for Solid Waste include deferred amounts arising from the pension plan. The deferred inflows of resources with the pension plan will be recognized in pension expense in future years.

10. Long-Term Obligations

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

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

| | Principal Outstanding July 1, 2016 | <u>Additions</u> | <u>Reductions</u> | Principal Outstanding June 30, 2017 | Due Within One Year |
|---|--|---------------------|---------------------|---|---------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Capital Leases-City | \$ 514,396 | \$ - | \$ 97,490 | \$ 416,906 | \$ 100,113 |
| Capital Leases- on behalf of component units | 932,529 | 2,375,705 | 932,529 | 2,375,705 | 2,139,877 |
| General Obligation Leases- on behalf of component units | 1,210,833 | - | 257,082 | 953,751 | 264,167 |
| General Obligation Bonds-City | 17,676,000 | 2,970,000 | 1,087,083 | 19,558,917 | 1,111,000 |
| General Obligation Bonds- on behalf of component units | 25,505,000 | - | 1,640,000 | 23,865,000 | 1,690,000 |
| Notes Payable-City | 1,318,768 | - | 193,768 | 1,125,000 | 75,000 |
| Plus: Unamortized Premium-City | 107,644 | 19,864 | 16,877 | 110,631 | - |
| Plus: Unamortized Premium- on behalf of component units | 1,619,346 | - | 167,102 | 1,452,244 | - |
| Less: Unamortized Discount-City | (29,971) | - | (1,456) | (28,515) | - |
| Less: Unamortized Discount- on behalf of component units | (7,147) | - | (517) | (6,630) | - |
| Total long-term debt | <u>48,847,398</u> | <u>5,365,569</u> | <u>4,389,958</u> | <u>49,823,009</u> | <u>5,380,157</u> |
| Compensated Absences | 2,637,893 | 177,301 | 105,319 | 2,709,875 | 108,395* |
| Net Pension Liability (PFPF) | 3,320,287 | - | 1,046,447 | 2,273,840 | - |
| Net Pension Liability (CERS) | <u>31,587,748</u> | <u>3,646,375</u> | <u>-</u> | <u>35,234,123</u> | <u>-</u> |
| Total Governmental Activities | <u>\$ 86,393,326</u> | <u>\$ 9,189,245</u> | <u>\$ 5,541,724</u> | <u>\$ 90,040,847</u> | <u>\$ 5,488,552</u> |

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

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

10. Long-Term Obligations, continued

| | Principal Outstanding July 1, 2016 | <u>Additions</u> | <u>Reductions</u> | Principal Outstanding June 30, 2017 | Due Within One Year |
|---|--|----------------------|---------------------|---|---------------------------|
| <u>Business-type Activities-HWEA:</u> | | | | | |
| Revenue Bonds | \$ 3,233,000 | \$ - | \$ 387,500 | \$ 2,845,500 | \$ 237,500 |
| Notes Payable | 41,534,114 | 2,084,729 | 2,398,543 | 41,220,300 | 2,634,946 |
| Revenue Leases | 1,596,128 | 3,924,244 | - | 5,520,372 | 2,592,088 |
| Payable to City of Hopkinsville: | | | | | |
| General Obligation Bonds | 21,185,000 | - | 1,475,000 | 19,710,000 | 1,525,000 |
| Plus: Unamortized Premium | 1,592,668 | - | 162,871 | 1,429,797 | - |
| Less: Unamortized Discount | <u>(7,147)</u> | <u>-</u> | <u>(517)</u> | <u>(6,630)</u> | <u>-</u> |
| Total long-term debt | 69,133,763 | 6,008,973 | 4,423,397 | 70,719,339 | 6,989,534 |
| Compensated Absences | 360,826 | 213,547 | 165,425 | 408,948 | 174,037* |
| Net Pension Liability (CERS) | <u>5,081,523</u> | <u>1,280,315</u> | <u>-</u> | <u>6,361,838</u> | <u>-</u> |
| Total Business-type Activities-HWEA | <u>\$ 74,576,112</u> | <u>\$ 7,502,835</u> | <u>\$ 4,588,822</u> | <u>\$ 77,490,125</u> | <u>\$ 7,163,571</u> |
| <u>Business-type Activities-Solid Waste:</u> | | | | | |
| Payable to City of Hopkinsville: | | | | | |
| Capital Vehicle Leases | \$ 932,529 | \$ 2,375,705 | \$ 932,529 | \$ 2,375,705 | \$ 2,139,877 |
| General Obligation Leases | 1,210,833 | - | 257,083 | 953,750 | 264,167 |
| Plus: Unamortized Premium | <u>17,479</u> | <u>-</u> | <u>3,814</u> | <u>13,665</u> | <u>-</u> |
| Total long-term debt | 2,160,841 | 2,375,705 | 1,193,426 | 3,343,120 | 2,404,044 |
| Compensated Absences | 292,483 | 89,486 | - | 381,969 | 57,295* |
| Net Pension Liability (CERS) | 3,138,976 | 622,552 | - | 3,761,528 | - |
| Accrued Landfill Closing Costs | <u>4,502,124</u> | <u>463,686</u> | <u>-</u> | <u>4,965,810</u> | <u>-</u> |
| Total Business-type Activities-Solid Waste | <u>\$ 10,094,424</u> | <u>\$ 3,551,429</u> | <u>\$ 1,193,426</u> | <u>\$ 12,452,427</u> | <u>\$ 2,461,339</u> |
| <u>Business-type Activities-Stormwater:</u> | | | | | |
| Payable to City of Hopkinsville: | | | | | |
| General obligation bonds | \$ 4,320,000 | \$ - | \$ 165,000 | \$ 4,155,000 | \$ 165,000 |
| Plus: Unamortized Premium | <u>9,199</u> | <u>-</u> | <u>417</u> | <u>8,782</u> | <u>-</u> |
| Total Business-type Activities-Stormwater | <u>\$ 4,329,199</u> | <u>\$ -</u> | <u>\$ 165,417</u> | <u>\$ 4,163,782</u> | <u>\$ 165,000</u> |
| Total Business-type Activities-Component Units | <u>\$ 88,999,735</u> | <u>\$ 11,054,264</u> | <u>\$ 5,947,665</u> | <u>\$ 94,106,334</u> | <u>\$ 9,789,910</u> |

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

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

10. Long-Term Obligations, continued

For governmental activities, compensated absences, claims and judgments payable, net pension liability (PFPF), and net pension liability (CERS) are liquidated by the general fund.

Capital Leases

See Note 12 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, 4.1% as of June 30, 2017, plus administrative fees, and matures in January 2021.

Branch Banking and Trust Company issued a general obligation lease agreement with the City on behalf of Solid Waste for \$400,000 in December 2013 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, 2017, and matures in December 2019.

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

Annual debt service requirements to maturity for general obligation lease agreements are as follows as of June 30, 2017:

| Fiscal Year Ending June 30 | Governmental Activities | | Business-type Activities Component Units | |
|-------------------------------|-------------------------|--------------------|---|------------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 264,167 | \$ 34,550 | \$ 264,167 | \$ 34,550 |
| 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>\$ 953,750**</u> | <u>\$ 81,852**</u> | <u>\$ 953,750</u> | <u>\$ 81,852</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.

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

10. Long-Term Obligations, continued

Notes Payable

The City had a loan for a firetruck with Oshkosh Capital which was paid off during the year ended June 30, 2017. The City also has an installment note with the Bank of New York Mellon for the renovation of the City's eight parks.

HWEA has used 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, 2017, was:

| <u>Governmental Activities:</u> | <u>Matures</u> | <u>Rate</u> | <u>Balance June 30, 2017</u> |
|---|----------------|---------------|--------------------------------------|
| Section 108 Guaranteed Loan - \$1,500,000 | 2031 | 2.50% | \$ <u>1,125,000</u> |
| | Total | | \$ <u>1,125,000</u> |
| | | | |
| <u>Business-type Activities-HWEA:</u> | <u>Matures</u> | <u>Rate</u> | <u>Balance June 30, 2017</u> |
| KIA Fund A Phase II - \$3,167,272 | 2018 | 1.8% | \$ 188,190 |
| KIA Fund C Wastewater | 2018 | 4.00 to 4.25% | 65,000 |
| KIA Fund A - \$614,521 | 2020 | 0.4% | 83,909 |
| KIA Fund A Phase III - \$834,891 | 2021 | 3.8% | 194,826 |
| KIA Fund B Water Plant - \$5,000,000 | 2026 | 1.9% | 1,807,339 |
| KIA Fund A Phase IV - \$4,583,635 | 2026 | 1.0% | 2,114,923 |
| KIA Fund A Phase V - \$2,469,924 | 2027 | 1.0% | 1,300,001 |
| KIA Fund F Drinking Water - \$1,513,593 | 2028 | 1.0% | 869,689 |
| KIA Fund F Water - \$3,887,432 | 2028 | 3.0% | 2,497,111 |
| KIA Fund F Water - \$8,800,000 | 2032 | 1.0% | 6,970,183 |
| KIA Fund A Sewer - \$483,710 | 2033 | 2.0% | 401,727 |
| KIA Fund A Sewer - \$7,488,282 | 2034 | 2.0% | 6,546,148 |
| KIA Fund A Sewer - \$7,090,224 | 2036 | 2.0% | 6,798,704 |
| KIA Fund A Sewer - \$9,917,241 | 2036 | 2.0% | 9,714,378 |
| KIA Fund A – loan not closed yet | | | <u>1,668,172</u> |
| | Total | | \$ <u>41,220,300</u> |

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

10. Long-Term Obligations, continued

Notes Payable, continued

Annual debt service requirements to maturity for notes payable are as follows as of June 30, 2017:

| Fiscal Year Ending June 30 | Governmental Activities | | Business-type Activities Component Units | |
|-------------------------------|-------------------------|-------------------|---|---------------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 75,000 | \$ 30,495 | \$ 2,634,946 | \$ 693,806 |
| 2019 | 75,000 | 29,254 | 2,423,213 | 647,044 |
| 2020 | 75,000 | 27,821 | 2,448,621 | 604,752 |
| 2021 | 75,000 | 26,134 | 2,444,799 | 561,705 |
| 2022 | 75,000 | 24,255 | 2,456,981 | 519,535 |
| 2023-2027 | 375,000 | 89,629 | 12,325,314 | 1,947,608 |
| 2028-2032 | 375,000 | 31,384 | 9,417,723 | 974,690 |
| 2033-2037 | - | - | 7,068,703 | 230,305 |
| Total | <u>\$ 1,125,000</u> | <u>\$ 258,972</u> | <u>\$ 41,220,300</u> | <u>\$ 6,179,445</u> |

As of June 30, 2017, HWEA has pledged future revenues of the water and sewer system to repay \$41,220,300 in total KIA loans established from 1996 through 2017; 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 21% of such net revenues (based on principal and interest payments for the year ending June 30, 2018, as a percentage of net water and sewer system revenues for the year ended June 30, 2017, which totaled \$15,634,463). Principal and interest paid for the year ended June 30, 2017, was \$3,149,710. As of June 30, 2017, pledged future revenues totaled \$47,399,745, which was the amount of the remaining principal and interest payments on these KIA loans.

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 matures in 2017 with interest rates ranging from 4.000% to 5.300%. Interest is 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 2.500%. Principal and interest are due in monthly installments.

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

10. Long-Term Obligations, continued

General Obligation Bonds, continued

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 2.000% to 3.125%. For portion (2) of the bond issue, this obligation matures in 2035 with interest rates ranging from 2.000% to 3.750%. 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 current City administration building to become the police department. This obligation matures in 2037 with interest rates ranging from 2.000% to 3.750%. 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 2.000% to 3.750%. 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 TIF, the U.S. Smokeless Tobacco project, and a visitor's center. This obligation matures in 2034 with interest rates ranging from 2.000% to 3.250%. 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 2.000% to 3.000%. 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 2.000% to 4.500%. 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

10. Long-Term Obligations, continued

General Obligation Bonds, continued

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 1.500% 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 1.100% to 3.250%. 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 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 4.000%. 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**

10. Long-Term Obligations, continued

General Obligation Bonds, continued

| <u>Governmental Activities:</u> | <u>Matures</u> | <u>Rate</u> | <u>Balance June 30, 2017</u> |
|---|----------------|--------------|--------------------------------------|
| Kentucky League of Cities Funding Pension, 2003 Series B - \$1,034,000 | 2017 | 4%-5.3% | \$ 101,000 |
| Kentucky Bond Corporation GO, 2010 First Series A - \$1,055,000 | 2019 | 2.50% | 197,917 |
| US Bank National Association GO, 2011 Series A - \$4,965,000 | 2026/2035 | 2%-3.75% | 3,385,000 |
| US Bank National Association GO, 2011 Series B - \$7,220,000 | 2037 | 2%-3.75% | 6,970,000 |
| US Bank National Association GO, 2013 Series C - \$3,965,000 | 2038 | 2%-3.75% | 3,835,000 |
| US Bank National Association GO, 2014 Series A - \$2,545,000 | 2034 | 2%-3.25% | 2,100,000 |
| US Bank National Association GO, 2016 Series - \$2,970,000 | 2038 | 2%-3.00% | <u>2,970,000</u> |
| Bonds issued directly to the City | | | 19,558,917 |
| <u>Issued on behalf of component units:</u> | | | |
| US Bank National Association GO, 2013 Series B - \$3,520,000 | 2034 | 2%-4.50% | 3,120,000 |
| 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% | 1,380,000 |
| US Bank National Association GO, 2015 Series A - \$15,710,000 | 2026 | 4% | 13,510,000 |
| US Bank National Association GO, 2013 Series A - \$4,635,000 | 2038 | 2% | <u>4,155,000</u> |
| Bonds issued on behalf of component units | | | <u>23,865,000</u> |
| Total bonds issued in the City's name | | | 43,423,917 |
| Plus: Unamortized bond premium | | | 1,562,875 |
| Less: Unamortized bond discount | | | <u>(35,145)</u> |
| Total | | | <u>\$44,951,647</u> |

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

10. Long-Term Obligations, continued

General Obligation Bonds, continued

| <u>Business-type Activities-HWEA:</u> | <u>Matures</u> | <u>Rate</u> | Balance June 30, 2017 |
|---|----------------|-------------|-----------------------------|
| Due to City of Hopkinsville, US Bank | 2034 | 2%-4.50% | \$ 3,120,000 |
| 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% | 1,380,000 |
| Due to City of Hopkinsville, US Bank | 2026 | 4% | <u>13,510,000</u> |
| | | | 19,710,000 |
| Plus: Unamortized bond premium | | | 1,429,797 |
| Less: Unamortized bond discount | | | <u>(6,630)</u> |
| | Total | | <u>\$21,133,167</u> |
| | | | |
| <u>Business-type Activities-Stormwater:</u> | <u>Matures</u> | <u>Rate</u> | Balance June 30, 2017 |
| Due to City of Hopkinsville, US Bank | 2038 | 2% | \$ 4,155,000 |
| Plus: Unamortized bond premium | | | <u>8,782</u> |
| | Total | | <u>\$ 4,163,782</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows as of June 30, 2017:

| <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> |
| 2018 | \$ 2,801,000 | \$ 1,522,356 | \$ 1,690,000 | \$ 865,140 |
| 2019 | 2,917,917 | 1,441,984 | 1,820,000 | 803,913 |
| 2020 | 2,960,000 | 1,358,883 | 1,880,000 | 739,693 |
| 2021 | 2,690,000 | 1,275,808 | 1,950,000 | 671,187 |
| 2022 | 2,780,000 | 1,126,392 | 2,020,000 | 599,231 |
| 2023-2027 | 13,485,000 | 4,013,396 | 9,365,000 | 1,814,140 |
| 2028-2032 | 7,475,000 | 2,611,546 | 2,710,000 | 771,157 |
| 2033-2037 | 7,510,000 | 1,080,822 | 2,075,000 | 266,769 |
| 2038 | <u>805,000</u> | <u>23,113</u> | <u>355,000</u> | <u>8,888</u> |
| Total | <u>\$ 43,423,917**</u> | <u>\$14,454,300**</u> | <u>\$ 23,865,000</u> | <u>\$ 6,540,118</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.

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

10. Long-Term Obligations, continued

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. Interest rates range from 3.750% to 4.900%. 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 4.000%. 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.

Also during the year ended June 30, 2005, the City, on behalf of HWEA, issued Series 2005B revenue bonds, the proceeds of which were used to refund older bonds. This obligation matured in 2017. Interest rates range from 3.000% to 3.750%. Interest was due in semi-annual installments.

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. Interest rates range from 3.200% to 4.400%. Interest is due in semi-annual installments.

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 June 30, 2017</u> |
|--|----------------|----------------|--------------------------------------|
| Water Sewer Facilities-1998-\$1,650,000 | 10/01/2021 | 3.75% to 4.90% | \$ 350,000 |
| Water Sewer Facilities-2010B-\$3,588,000 | 04/01/2030 | 3.20% to 4.40% | <u>2,495,500</u> |
| | Total | | <u>\$ 2,845,500</u> |

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

10. Long-Term Obligations, continued

Revenue Bonds, continued

Annual debt service requirements projected to maturity for revenue bonds are as follows as of June 30, 2017:

| Fiscal Year Ending June 30 | Governmental Activities | | Business-type Activities Component Units | |
|-------------------------------|-------------------------|----------|---|------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ - | \$ - | \$ 237,500 | \$ 121,276 |
| 2019 | - | - | 249,000 | 111,683 |
| 2020 | - | - | 261,500 | 101,341 |
| 2021 | - | - | 272,500 | 90,039 |
| 2022 | - | - | 185,000 | 77,929 |
| 2023-2027 | - | - | 1,035,000 | 267,236 |
| 2028-2030 | - | - | 605,000 | 48,320 |
| Total | \$ - | \$ - | \$ 2,845,500 | \$ 817,824 |

As of June 30, 2017, HWEA has pledged future revenues of the water and sewer system to repay \$2,845,000 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, 2018, as a percentage of net water and sewer system revenues for the year ended June 30, 2017, which totaled \$15,634,463). Principal and interest paid for the year ended June 30, 2017, was \$522,888. As of June 30, 2017, pledged future revenues totaled \$3,663,324 which is the amount of the remaining principal and interest payments on these bonds.

Revenue Leases

Water Main

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%.

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 \$2.5 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 the amounts associated with this lease will come from payments received from USACE. This lease matures in October 2027.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

10. Long-Term Obligations, continued

Revenue Leases, continued

Natural Gas Pipeline

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 July 2027.

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, 2017, the amount of bonds outstanding 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, 2017 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 \$64,750 for HWEA for the year ended June 30, 2017.

11. Interest Capitalization

Total interest cost incurred and expensed for the City for the year ended June 30, 2017 was \$659,294. There was no interest capitalized for the year ended June 30, 2017.

Total interest cost incurred for HWEA for the year ended June 30, 2017 was \$1,801,938. Interest cost capitalized was \$339,377, and interest cost expensed was \$1,462,561 for the year ended June 30, 2017.

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

11. Interest Capitalization, continued

Solid Waste and Stormwater did not have any interest cost capitalized for the year ended June 30, 2017.

12. Capital Leases

In July 2015, the City leased a fire truck from Oshkosh Capital. 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.

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

| | |
|--------------------------------|-------------------|
| Equipment under capital leases | \$ 514,396 |
| Less accumulated depreciation | <u>(205,758)</u> |
| Total | <u>\$ 308,638</u> |

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

The City's future minimum lease obligations as of June 30, 2017, 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> |
|---------------------------------------|---------------------------------|----------------------------------|--|
| 2018 | \$ 111,328 | \$ 11,215 | \$ 100,113 |
| 2019 | 111,328 | 8,522 | 102,806 |
| 2020 | 111,328 | 5,756 | 105,572 |
| 2021 | <u>111,328</u> | <u>2,913</u> | <u>108,415</u> |
| Total | <u>\$ 445,312</u> | <u>\$ 28,406</u> | <u>\$ 416,906</u> |

In August 2012, the Enterprise leased two residential trucks. The vehicles were leased at \$79,766 per year for a term of six years at an interest rate of 3.30%. The first annual payment was due September 2013. The lease was set to expire in September 2018. There was a purchase option on each rental payment due date for the amount due on such date plus the purchase option price set forth in the lease agreement. This lease was paid off and the related property sold in July 2016.

In October 2015, the Enterprise leased three roll-off trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment was due at the expiration date in April 2017. 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 April 2017.

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

12. Capital Leases, continued

In April 2016, the Enterprise leased two Mack trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment was due at the expiration date in October 2017. 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 March 2017.

In July 2016, the Enterprise leased two roll-off and two front-load trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.74%. A lump sum principal payment is due at the expiration date in January 2018. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

In October 2016, the Enterprise leased three roll-off trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment is due at the expiration date in April 2018. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

In October 2016, the Enterprise leased three knuckle-boom trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment is due at the expiration date in April 2018. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

In May 2017, the Enterprise leased two semi-trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.81%. A lump sum principal payment is due at the expiration date in November 2018. 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 | \$2,375,705 |
| Less accumulated depreciation | <u>(380,418)</u> |
| Total | <u><u>\$1,995,287</u></u> |

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

Solid Waste's future minimum lease obligations as of June 30, 2017, 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> |
|---------------------------------------|---------------------------------|----------------------------------|--|
| 2018 | \$2,204,174 | \$ 64,297 | \$2,139,877 |
| 2019 | <u>239,562</u> | <u>3,734</u> | <u>235,828</u> |
| Total | <u><u>\$2,443,736</u></u> | <u><u>\$ 68,031</u></u> | <u><u>\$2,375,705</u></u> |

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

12. Capital Leases, continued

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.

13. Interfund Transfers

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

Interfund transfers for the year ended June 30, 2017, consisted of the following:

| | Transfer From: | | | | | Total |
|-------------------------------|---------------------|-------------------------------|----------------|--------------------------------------|----------------------------------|---------------------|
| | General Fund | Tie Breaker Family Fund | Grants Fund | City Hall/PD Construction Fund | Nonmajor Governmental Type | |
| General Fund | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Tie Breaker Family Fund | 100,000 | - | - | - | - | 100,000 |
| Grants Fund | - | - | - | - | - | - |
| Nonmajor Governmental Type | <u>1,977,767</u> | - | - | - | <u>9,603</u> | <u>1,987,370</u> |
| Total | <u>\$ 2,077,767</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,603</u> | <u>\$ 2,087,370</u> |

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

14. Fund Balance Classification

The composition of the fund balance classifications at June 30, 2017 are as follows:

| | <u>Major Fund</u> | Other | Total |
|--------------------------------|----------------------|---------------------|---------------------|
| | <u>General Fund</u> | <u>Governmental</u> | <u>Governmental</u> |
| | | Funds | Funds |
| Fund balances: | | | |
| Nonspendable | \$ - | \$ - | \$ - |
| Restricted: | | | |
| Streets and sidewalks | - | 23,829 | 23,829 |
| Police incentives | - | 24,669 | 24,669 |
| Fire incentives | - | 25,824 | 25,824 |
| Urban development action grant | - | 810,458 | 810,458 |
| Cemetery perpetual trusts | - | 783,831 | 783,831 |
| Capital projects | - | 2,147,942 | 2,147,942 |
| | <u>-</u> | <u>3,816,553</u> | <u>3,816,553</u> |
| Committed: | | | |
| Inner city development | 394,462 | - | 394,462 |
| Law enforcement | - | 291,224 | 291,224 |
| Pension spiking | 201,000 | - | 201,000 |
| Economic development | 1,450,000 | - | 1,450,000 |
| Capital projects | 163,469 | - | 163,469 |
| | <u>2,208,931</u> | <u>291,224</u> | <u>2,500,155</u> |
| Assigned: | | | |
| Major equipment purchases | 44,666 | - | 44,666 |
| Capital projects | 30,000 | - | 30,000 |
| Community services | 74,950 | - | 74,950 |
| Streets and sidewalks | - | 440,232 | 440,232 |
| | <u>149,616</u> | <u>440,232</u> | <u>589,848</u> |
| Unassigned | <u>10,232,629</u> | <u>-</u> | <u>10,232,629</u> |
| Total fund balances | <u>\$ 12,591,176</u> | <u>\$ 4,548,009</u> | <u>\$17,139,185</u> |

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

15. 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.

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.

17. 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.

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.

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

18. Risk Management, continued

The Health Insurance Fund was established to account for the City's employee health care coverage program that is self-insured by the City. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At June 30, 2017, the claims liability was \$61,601 (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> |
|-----------|--|--|----------------------------|--|
| 2015-2016 | \$ 81,067 | \$1,932,560 | \$1,957,696 | \$ 55,931 |
| 2016-2017 | \$ 55,931 | \$2,164,110 | \$2,158,440 | \$ 61,601 |

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, 2017, the claims liability was \$53,347. 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> |
|-----------|--|--|----------------------------|--|
| 2015-2016 | \$ 96,889 | \$ 766,229 | \$ 770,076 | \$ 93,042 |
| 2016-2017 | \$ 93,042 | \$ 274,389 | \$ 314,084 | \$ 53,347 |

19. Closure and Postclosure Care Costs

State and federal laws and regulations require the City's Solid Waste to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for up to thirty years after closure. The City closed its regular landfill on July 1, 1995. The City and, subsequently, 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, 2017 was \$4,965,810. 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, 2017, areas 6 and 7 are closed and area 9 is the vertical expansion, which had capacity used of approximately 24% at June 30, 2017. These amounts are based on what it would cost to perform all closure and postclosure care in 2017 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

19. Closure and Postclosure Care Costs, continued

As of June 30, 2017, the total amount of closure and postclosure costs are estimated to be \$7,470,152, leaving \$2,504,342 remaining to be recognized. The remaining life of the landfill is estimated to be 37.9 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, 2017, \$244,009 is held for closure and postclosure costs and reported in restricted investments on the statement of net position. The 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.

20. 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 are currently financed with loans from a local bank; but once the construction of these projects is complete, HWEA will 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 a receivable (with deferred revenue offsetting the receivable) for the amount of funds currently drawn on these loans. As USACE reimburses HWEA, the note receivable will be written down; and the deferred revenue balance will be amortized to revenue over the ten-year payment period. The balance of this receivable was \$5,608,881 at June 30, 2017.

21. 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 \$240,420 as of June 30, 2017; and this is included in accounts receivable in the accompanying statements of net position. For the year ended June 30, 2017, the total expense for billing and collection services was \$83,231. For the year ended June 30, 2017, the total expense for leachate purification services was \$79,828. At June 30, 2017, accounts payable for these services was \$10,218.

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

21. Related Party Transactions, continued

The City assesses a percentage of Solid Waste revenue as payment in lieu of taxes. For the year ended June 30, 2017, the total expense for payment in lieu of taxes was \$215,709. At June 30, 2017, accounts payable for these payments was \$18,810.

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, 2017, 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, 2017.

Stormwater has contracted services with HWEA for utility billing and cash collection services. For the year ended June 30, 2017, the total expense for these services was \$74,466. At June 30, 2017, accounts payable for these services was \$6,394.

For the year ended June 30, 2017, the City paid approximately \$1,128,874 and \$1,846,583 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.

22. Subsequent Events

Subsequent to the year ended June 30, 2017, the City entered into a lease agreement in the amount of \$252,750 for half of the cost of a 2017 Pierce Pumper truck, with the remaining half to be paid from capital funds. Also subsequent to the year ended June 30, 2017, the City issued general obligation bonds of approximately \$7 million to finance part of the WINS project.

Subsequent to the year ended June 30, 2017, HWEA finalized and placed into service construction of approximately 5.6 miles of 20" ductile iron water main to serve the Fort Campbell Army Post with a redundant connection for domestic water. At that time, the revenue lease that the City of Hopkinsville had entered into on behalf of HWEA was closed, and a ten-year repayment schedule was established. HWEA began making principal and interest payments on this revenue lease in October 2017 from payments received from USACE, as established in the agreement between HWEA and USACE. Also subsequent to the year ended June 30, 2017, HWEA entered into a contract with Mechanical Consultants for the Water Treatment Plant HVAC Renovation Project. This project has an estimated contract cost of \$117,320.

Subsequent to year end, the City, on behalf of the Enterprise, entered into two capital lease agreements for trucks. Lease agreement #14 totals \$759,360 and is set to expire February 2019. Lease agreement #15 totals \$1,414,173 and is set to expire April 2019. Also, the Enterprise entered into a contract in September 2017 for construction of a maintenance building for approximately \$380,000.

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS

23. Implementation of GASB Pronouncements

A. Accounting Pronouncements Adopted during the Fiscal Year ended June 30, 2017

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. During the year ended June 30, 2017, the City adopted the following GASB pronouncements:

- Statement No. 74: *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 75: *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Statement No. 77: *Tax Abatement Disclosures*
- Statement No. 78: *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- Statement No. 80: *Blending Requirements for Certain Component Units*
- Statement No. 81: *Irrevocable Split-Interest Agreements*

None of the above GASB Statements 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 pronouncement to determine the impact of implementation in future periods.

- Statement No. 82: *Pension Issues (FY2018)*
- Statement No. 83: *Certain Asset Retirement Obligations (FY2019)*
- Statement No. 84: *Fiduciary Activities (FY2020)*
- Statement No. 85: *Omnibus 2017 (FY2018)*
- Statement No. 86: *Certain Debt Extinguishment Issues (FY2018)*
- Statement No. 87: *Leases (FY2021)*

REQUIRED SUPPLEMENTARY INFORMATION

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|------------------|
| <u>Nonhazardous:</u> | | | |
| City's proportion of the net pension liability (asset) | 0.147963% | 0.146015% | 0.143192% |
| City's proportionate share of the net pension liability (asset) | \$ 7,285,140 | \$ 6,277,960 | \$ 4,646,000 |
| City's covered payroll | \$ 4,022,388 | \$ 3,664,551 | \$ 3,410,997 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 181.11% | 171.32% | 136.21% |
| Total pension plan's fiduciary net position | \$ 6,141,394,419 | \$ 6,440,799,856 | \$ 6,528,146,353 |
| Total pension plan's pension liability | \$ 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 | 55.50% | 59.97% | 66.80% |
| <u>Hazardous:</u> | | | |
| City's proportion of the net pension liability (asset) | 1.628784% | 1.648732% | 1.659682% |
| City's proportionate share of the net pension liability (asset) | \$ 27,948,983 | \$ 25,309,788 | \$ 19,946,000 |
| City's covered payroll | \$ 9,489,583 | \$ 8,647,767 | \$ 8,431,262 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 294.52% | 292.67% | 236.57% |
| Total pension plan's fiduciary net position | \$ 2,010,174,047 | \$ 2,078,201,667 | \$ 2,087,002,261 |
| Total pension plan's pension liability | \$ 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 | 53.95% | 57.52% | 63.46% |

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred.

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 2017 measurement date is June 30, 2016, the 2016 measurement date is June 30, 2015, and the 2015 measurement date is June 30, 2014.

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|------------------|
| HWEA: | | | |
| <u>Nonhazardous:</u> | | | |
| HWEA's proportion of the net pension liability (asset) | 0.129211% | 0.118190% | 0.114295% |
| HWEA's proportionate share of the net pension liability (asset) | \$ 6,361,838 | \$ 5,081,523 | \$ 3,708,000 |
| HWEA's covered payroll | \$ 3,355,136 | \$ 3,131,198 | \$ 2,766,612 |
| HWEA's proportionate share of the net pension liability as a percentage of its covered payroll | 189.61% | 162.29% | 134.03% |
| Total pension plan's fiduciary net position | \$ 6,141,394,419 | \$ 6,440,799,856 | \$ 6,528,146,353 |
| Total pension plan's pension liability | \$ 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 | 55.50% | 59.97% | 66.80% |
| Solid Waste: | | | |
| <u>Nonhazardous:</u> | | | |
| Solid Waste's proportion of the net pension liability (asset) | 0.076398% | 0.073008% | 0.070445% |
| Solid Waste's proportionate share of the net pension liability (asset) | \$ 3,761,528 | \$ 3,138,976 | \$ 2,286,000 |
| Solid Waste's covered payroll | \$ 2,161,508 | \$ 1,822,532 | \$ 1,688,607 |
| Solid Waste's proportionate share of the net pension liability as a percentage of its covered payroll | 174.02% | 172.23% | 135.38% |
| Total pension plan's fiduciary net position | \$ 6,141,394,419 | \$ 6,440,799,856 | \$ 6,528,146,353 |
| Total pension plan's pension liability | \$ 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 | 55.50% | 59.97% | 66.80% |

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred.

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 2017 measurement date is June 30, 2016, the 2016 measurement date is June 30, 2015, and the 2015 measurement date is June 30, 2014.

City of Hopkinsville, Kentucky
Schedules of Required Supplementary Information
County Employees Retirement System (CERS)
Schedules of City of Hopkinsville's Contributions
For the Years Ended June 30,

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| <u>Nonhazardous:</u> | | | | |
| Contractually required contributions | \$ 714,562 | \$ 602,161 | \$ 602,723 | \$ 620,548 |
| Contributions in relation to the contractually required contributions | <u>714,562</u> | <u>602,161</u> | <u>602,723</u> | <u>620,548</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 4,022,388 | \$ 3,664,551 | \$ 3,410,997 | \$ 3,282,128 |
| Contributions as a percentage of covered payroll | 17.76% | 16.43% | 17.67% | 18.91% |
| <u>Hazardous:</u> | | | | |
| Contractually required contributions | \$ 2,880,492 | \$ 2,790,174 | \$ 2,892,766 | \$ 3,000,986 |
| Contributions in relation to the contractually required contributions | <u>2,880,492</u> | <u>2,790,174</u> | <u>2,892,766</u> | <u>3,000,986</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 9,489,583 | \$ 8,647,767 | \$ 8,431,262 | \$ 8,400,784 |
| Contributions as a percentage of covered payroll | 30.35% | 32.26% | 34.31% | 35.72% |

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred.

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 2017 measurement date is June 30, 2016, the 2016 measurement date is June 30, 2015, and the 2015 measurement date is June 30, 2014.

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------|----------------|----------------|----------------|
| Component units: | | | | |
| HWEA: | | | | |
| <u>Nonhazardous:</u> | | | | |
| Contractually required contributions | \$ 618,705 | \$ 525,846 | \$ 487,244 | \$ 495,315 |
| Contributions in relation to the contractually required contributions | <u>618,705</u> | <u>525,846</u> | <u>487,244</u> | <u>495,315</u> |
| Contributions deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 3,355,136 | \$ 3,131,198 | \$ 2,766,612 | \$ 2,621,446 |
| Contributions as a percentage of covered payroll | 18.44% | 16.79% | 17.61% | 18.89% |
| | | | | |
| Solid Waste | | | | |
| <u>Nonhazardous:</u> | | | | |
| Contractually required contributions | \$ 405,369 | \$ 320,925 | \$ 310,637 | \$ 305,286 |
| Contributions in relation to the contractually required contributions | <u>405,369</u> | <u>320,925</u> | <u>310,637</u> | <u>305,286</u> |
| Contributions deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 2,161,508 | \$ 1,822,532 | \$ 1,688,607 | \$ 1,610,274 |
| Contributions as a percentage of covered payroll | 18.75% | 17.61% | 18.40% | 18.96% |

Note: This schedule is intended to present a 10-year trend per GASB 68. Additional years will be reported as incurred.

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 2017 measurement date is June 30, 2016, the 2016 measurement date is June 30, 2015, and the 2015 measurement date is June 30, 2014.

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|----------------------------|
| Total Pension Liability | | | |
| Service cost | \$ - | \$ - | \$ - |
| Interest cost | 168,334 | 212,523 | 267,915 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | (734,902) | (748,273) | (71,532) |
| Changes of assumptions | (100,401) | (235,376) | 1,026,854 |
| Benefit payments | (315,549) | (354,942) | (399,589) |
| Other | - | - | - |
| Net change in total pension liability | <u>(982,518)</u> | <u>(1,126,068)</u> | <u>823,648</u> |
| Total pension liability-beginning | <u>4,379,275</u> | <u>5,505,343</u> | <u>4,681,695</u> |
| Total pension liability-ending | <u><u>\$ 3,396,757</u></u> | <u><u>\$ 4,379,275</u></u> | <u><u>\$ 5,505,343</u></u> |
| Plan Fiduciary Net Position | | | |
| Contributions-employer | \$ 375,000 | \$ 399,744 | \$ 400,000 |
| Contributions-employee | - | - | - |
| Net investment income | 11,640 | 13,081 | 31,039 |
| Benefit payments | (315,549) | (354,942) | (399,589) |
| Administration expenses | (7,162) | (13,440) | (6,405) |
| Other | - | - | - |
| Net change in plan fiduciary net position | <u>63,929</u> | <u>44,443</u> | <u>25,045</u> |
| Plan fiduciary net position-beginning | <u>1,058,988</u> | <u>1,014,545</u> | <u>989,500</u> |
| Plan fiduciary net position-ending | <u><u>\$ 1,122,917</u></u> | <u><u>\$ 1,058,988</u></u> | <u><u>\$ 1,014,545</u></u> |
| Net Pension Liability | <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 | 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 |

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
Schedules of Contributions
For the Years Ended June 30,**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|-------------------|
| Actuarially determined contribution | \$ 731,484 | \$ 989,356 | \$ 851,707 |
| Contributions in relation to the actuarially determined contribution | <u>375,000</u> | <u>399,744</u> | <u>400,000</u> |
| Contribution deficiency (excess) | <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 |

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
Schedules of Investment Return
For the Years Ended June 30,**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 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
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual (See Note A) | Variance with Final Budget |
|--|---------------------|---------------------|--------------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Taxes | \$ 5,265,000 | \$ 5,265,000 | \$ 5,469,521 | \$ 204,521 |
| Licenses and permits | 22,647,500 | 23,092,500 | 23,143,767 | 51,267 |
| Fines and forfeits | 60,000 | 60,000 | 73,980 | 13,980 |
| Intergovernmental | 3,072,285 | 3,478,001 | 3,395,213 | (82,788) |
| Charges for services | 258,600 | 258,600 | 261,317 | 2,717 |
| Interest | 82,000 | 82,000 | 111,182 | 29,182 |
| Other revenues | 701,081 | 696,081 | 677,964 | (18,117) |
| Total Revenues | <u>32,086,466</u> | <u>32,932,182</u> | <u>33,132,944</u> | <u>200,762</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| Administrative | 1,733,549 | 1,714,129 | 1,789,503 | (75,374) |
| Tax department | 803,454 | 872,454 | 699,308 | 173,146 |
| Information technology | 881,029 | 804,608 | 797,218 | 7,390 |
| Legislative | 341,323 | 341,323 | 320,256 | 21,067 |
| Public safety: | | | | |
| Police | 7,597,814 | 7,454,947 | 7,374,026 | 80,921 |
| Emergency communications | 1,224,566 | 1,224,566 | 1,128,874 | 95,692 |
| Fire | 7,774,070 | 8,117,110 | 7,701,405 | 415,705 |
| Other | 1,322,163 | 1,322,163 | 1,219,292 | 102,871 |
| Public works: | | | | |
| Administrative | 282,274 | 274,374 | 281,585 | (7,211) |
| Street | 1,880,661 | 1,824,238 | 1,768,821 | 55,417 |
| Service center | 393,109 | 393,109 | 385,080 | 8,029 |
| Other | 420,000 | 420,000 | 421,866 | (1,866) |
| Community development | 3,573,667 | 3,873,667 | 3,601,560 | 272,107 |
| Parks and recreation | 982,919 | 1,010,370 | 1,035,909 | (25,539) |
| Debt service: | | | | |
| Principal | 1,087,083 | 1,087,083 | 1,087,083 | - |
| Interest and finance charges | 458,227 | 458,227 | 559,118 | (100,891) |
| Capital outlays | - | 342,540 | 342,540 | - |
| Total Expenditures | <u>30,755,908</u> | <u>31,534,908</u> | <u>30,513,444</u> | <u>1,021,464</u> |
| Excess of revenues over (under) expenditures | 1,330,558 | 1,397,274 | 2,619,500 | 1,222,226 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of capital assets | - | - | - | - |
| Transfers in | 550,000 | 550,000 | 550,000 | - |
| Transfers out | (3,135,372) | (3,225,372) | (3,750,626) | (525,254) |
| Total Other Financing Sources (Uses) | <u>(2,585,372)</u> | <u>(2,675,372)</u> | <u>(3,200,626)</u> | <u>(525,254)</u> |
| Net change in fund balance | (1,254,814) | (1,278,098) | (581,126) | 696,972 |
| Fund balance, beginning of year | 10,545,216 | 10,545,216 | 10,545,216 | - |
| Fund balance, end of year | <u>\$ 9,290,402</u> | <u>\$ 9,267,118</u> | <u>\$ 9,964,090</u> | <u>\$ 696,972</u> |

CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ended June 30, 2017

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, 2017, of the General Fund is presented below.

| | |
|---|--------------|
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses (budgetary basis) | \$ (581,126) |
|---|--------------|

Adjustments:

| | |
|---|----------------|
| To adjust expenditures for salary accruals | 393,788 |
| To adjust expenditures for payable accruals | 105,564 |
| To adjust revenues for tax and license accruals | <u>492,463</u> |

| | |
|--|-------------------|
| Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis) | <u>\$ 410,689</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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
For the Year Ended June 30, 2016

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, 2016, of the General Fund is presented below.

| | |
|---|------------|
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses (budgetary basis) | \$ 202,391 |
|---|------------|

Adjustments:

| | |
|---|----------------|
| To adjust expenditures for salary accruals | (117,791) |
| To adjust expenditures for payable accruals | 67,334 |
| To adjust revenues for tax and license accruals | <u>308,415</u> |

| | |
|--|-------------------|
| Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis) | <u>\$ 460,349</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, 2017

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

| | General Fund (Budgetary) | Budgetary to GAAP Adjustments * | Special Revenue Funds | Total |
|---|--------------------------------|---------------------------------------|-----------------------------|-----------------------|
| REVENUES | | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 33,132,944 | \$ 33,132,944 | \$ 25,142 | \$ 33,158,086 |
| Adjustments: | | | | |
| The City budgets for receivables on the cash basis, rather than on the modified accrual basis | - | 492,463 | - | 492,463 |
| Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting | - | - | - | - |
| Total revenues as reported on the budgetary comparison schedule | <u>33,132,944</u> | <u>33,625,407</u> | <u>25,142</u> | <u>33,650,549</u> ^ |
| EXPENDITURES | | | | |
| Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule | (30,513,444) | (30,513,444) | - | (30,513,444) |
| Adjustments: | | | | |
| The City budgets for payables on the cash basis, rather than on the modified accrual basis | - | 105,564 | - | 105,564 |
| The City budgets for payroll on the cash basis, rather than on the modified accrual basis | - | 393,788 | - | 393,788 |
| Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting | - | - | (4,878,299) | (4,878,299) |
| Total expenditures as reported on the budgetary comparison schedule | <u>(30,513,444)</u> | <u>(30,014,092)</u> | <u>(4,878,299)</u> | <u>(34,892,391)</u> ^ |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 550,000 | 550,000 | - | 550,000 |
| Transfers out | (3,750,626) | (3,750,626) | 1,122,859 | (2,627,767) |
| Issuance of long-term debt | - | - | 5,365,569 | 5,365,569 |
| Total other financing sources (uses) | <u>(3,200,626)</u> | <u>(3,200,626)</u> | <u>6,488,428</u> | <u>3,287,802</u> ^ |
| Excess of revenues and other financing sources over/ (under) expenditures and other financing uses | <u>\$ (581,126)</u> | <u>\$ 410,689</u> | <u>** \$ 1,635,271</u> | <u>\$ 2,045,960</u> ^ |
| Reclassifications: | | | | |
| Budgetary Special Revenue Funds are consolidated into the General Fund, required for GAAP reporting | <u>\$ (1,122,859)</u> | <u>\$ -</u> | <u>\$ 1,122,859</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, 2017**

| | Nonmajor Special Revenue Funds | Nonmajor Capital Projects Funds | Nonmajor Permanent Fund | Total Nonmajor Governmental Funds |
|---|---|--|-------------------------------|--|
| ASSETS | | | | |
| Pooled cash and cash equivalents | \$ 1,281,672 | \$ 755,390 | \$ - | \$ 2,037,062 |
| Non-pooled cash and cash equivalents | 217,564 | 1,334,328 | 71,426 | 1,623,318 |
| Investments | 239,710 | - | 367,499 | 607,209 |
| Loans receivable | 222,196 | - | - | 222,196 |
| Due from component unit | - | - | - | - |
| Other receivables | <u>199,000</u> | <u>-</u> | <u>-</u> | <u>199,000</u> |
| Total assets | <u>\$ 2,160,142</u> | <u>\$ 2,089,718</u> | <u>\$ 438,925</u> | <u>\$ 4,688,785</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 57,033 | \$ 83,743 | \$ - | \$ 140,776 |
| Interfund payables | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>57,033</u> | <u>83,743</u> | <u>-</u> | <u>140,776</u> |
| FUND BALANCES | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 1,371,653 | 2,005,975 | 438,925 | 3,816,553 |
| Committed | 291,224 | - | - | 291,224 |
| Assigned | 440,232 | - | - | 440,232 |
| Unassigned | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>2,103,109</u> | <u>2,005,975</u> | <u>438,925</u> | <u>4,548,009</u> |
| Total liabilities and fund balances | <u>\$ 2,160,142</u> | <u>\$ 2,089,718</u> | <u>\$ 438,925</u> | <u>\$ 4,688,785</u> |

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

| | Nonmajor Special Revenue Funds | Nonmajor Capital Projects Funds | Nonmajor Permanent Fund | Total Nonmajor Governmental Funds |
|---|---|--|-------------------------------|--|
| REVENUES | | | | |
| Intergovernmental | \$ 1,817,973 | \$ - | \$ - | \$ 1,817,973 |
| Investment income (loss) | 5,722 | 6,761 | (12,452) | 31 |
| Insurance proceeds | - | - | - | - |
| Donations | - | 50 | - | 50 |
| Other | 39,905 | - | 9,926 | 49,831 |
| Total revenues | <u>1,863,600</u> | <u>6,811</u> | <u>(2,526)</u> | <u>1,867,885</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 14,120 | 14,385 | - | 28,505 |
| Public safety | 717,057 | 26,339 | - | 743,396 |
| Public works | 112,334 | 3,935 | - | 116,269 |
| Community development | 181,703 | 3,805 | - | 185,508 |
| Parks and recreation | - | 31,895 | - | 31,895 |
| Debt Service: | | | | |
| Principal | 75,000 | 216,258 | - | 291,258 |
| Interest | 31,530 | 17,497 | - | 49,027 |
| Expenditures | - | - | - | - |
| Capital outlay | 597,481 | 1,359,008 | - | 1,956,489 |
| Total expenditures | <u>1,729,225</u> | <u>1,673,122</u> | <u>-</u> | <u>3,402,347</u> |
| Excess of revenues over (under) expenditures | <u>134,375</u> | <u>(1,666,311)</u> | <u>(2,526)</u> | <u>(1,534,462)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 204 | 1,987,166 | - | 1,987,370 |
| Transfers out | (9,603) | - | - | (9,603) |
| Issuance of debt | - | - | - | - |
| Total other financing sources (uses) | <u>(9,399)</u> | <u>1,987,166</u> | <u>-</u> | <u>1,977,767</u> |
| Net change in fund balances | 124,976 | 320,855 | (2,526) | 443,305 |
| Fund balances, beginning of year | <u>1,978,133</u> | <u>1,685,120</u> | <u>441,451</u> | <u>4,104,704</u> |
| Fund balances, end of year | <u>\$ 2,103,109</u> | <u>\$ 2,005,975</u> | <u>\$ 438,925</u> | <u>\$ 4,548,009</u> |

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017**

| | 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 |
|--|--------------------------|---|-------------------------|-------------------------|--------------------------------------|--------------------------|--------------------------|--------------------------|--|
| ASSETS | | | | | | | | | |
| Pooled cash and cash equivalents | \$ 464,061 | \$ - | \$ 24,669 | \$ 25,824 | \$ 588,262 | \$ 178,856 | \$ - | \$ - | \$ 1,281,672 |
| Non-pooled cash and cash equivalents | - | - | - | - | - | 112,368 | 105,196 | - | 217,564 |
| Investments | - | - | - | - | - | - | 239,710 | - | 239,710 |
| Loans receivable | - | - | - | - | 222,196 | - | - | - | 222,196 |
| Due from component unit | - | - | - | - | - | - | - | - | - |
| Other receivables | - | - | - | - | - | - | - | 199,000 | 199,000 |
| Total assets | <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>\$ 199,000</u> | <u>\$ 2,160,142</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | |
| LIABILITIES | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 57,033 | \$ 57,033 |
| Interfund payables | - | - | - | - | - | - | - | - | - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>57,033</u> | <u>57,033</u> |
| FUND BALANCES | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - |
| Restricted | 23,829 | - | 24,669 | 25,824 | 810,458 | - | 344,906 | 141,967 | 1,371,653 |
| Committed | - | - | - | - | - | 291,224 | - | - | 291,224 |
| Assigned | 440,232 | - | - | - | - | - | - | - | 440,232 |
| Unassigned | - | - | - | - | - | - | - | - | - |
| Total fund balances | <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> |
| Total liabilities and fund balances | <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>\$ 199,000</u> | <u>\$ 2,160,142</u> |

City of Hopkinsville, Kentucky
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017

| | 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 |
|---|-----------------------|---|---------------------|-------------------|--------------------------------------|---------------------|---------------------|-------------------|--|
| REVENUES | | | | | | | | | |
| Intergovernmental | \$ 639,667 | \$ 274,366 | \$ 295,268 | \$ 323,678 | \$ - | \$ - | \$ - | \$ 284,994 | \$ 1,817,973 |
| Investment income (loss) | 4,206 | - | - | - | 1,161 | 1,128 | (773) | - | 5,722 |
| Other revenue | - | - | - | - | - | 39,769 | 136 | - | 39,905 |
| Total revenues | <u>643,873</u> | <u>274,366</u> | <u>295,268</u> | <u>323,678</u> | <u>1,161</u> | <u>40,897</u> | <u>(637)</u> | <u>284,994</u> | <u>1,863,600</u> |
| EXPENDITURES | | | | | | | | | |
| General government | - | - | - | - | - | - | 12,152 | 1,968 | 14,120 |
| Public safety | - | - | 288,733 | 325,520 | - | 69,309 | - | 33,495 | 717,057 |
| Public works | 103,484 | - | - | - | - | - | 8,850 | - | 112,334 |
| Community development | - | 125,682 | - | - | - | - | - | 56,021 | 181,703 |
| Debt Service: | | | | | | | | | |
| Principal | - | 75,000 | - | - | - | - | - | - | 75,000 |
| Interest | - | 31,530 | - | - | - | - | - | - | 31,530 |
| Capital Outlay | 342,036 | 42,154 | - | - | - | - | - | 213,291 | 597,481 |
| Total expenditures | <u>445,520</u> | <u>274,366</u> | <u>288,733</u> | <u>325,520</u> | <u>-</u> | <u>69,309</u> | <u>21,002</u> | <u>304,775</u> | <u>1,729,225</u> |
| Excess of revenues over (under) expenditures | <u>198,353</u> | <u>-</u> | <u>6,535</u> | <u>(1,842)</u> | <u>1,161</u> | <u>(28,412)</u> | <u>(21,639)</u> | <u>(19,781)</u> | <u>134,375</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | |
| Transfers in | - | - | - | - | - | - | 204 | - | 204 |
| Transfer out | - | - | - | - | - | - | (204) | (9,399) | (9,603) |
| Issuance of debt | - | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,399)</u> | <u>(9,399)</u> |
| Net change in fund balances | 198,353 | - | 6,535 | (1,842) | 1,161 | (28,412) | (21,639) | (29,180) | 124,976 |
| Fund balances, beginning of year | <u>265,708</u> | <u>-</u> | <u>18,134</u> | <u>27,666</u> | <u>809,297</u> | <u>319,636</u> | <u>366,545</u> | <u>171,147</u> | <u>1,978,133</u> |
| Fund balances, end of year | <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> |

**City of Hopkinsville, Kentucky
Budgetary Comparison Schedule
Municipal Road Aid Special Revenue Fund
For the Year Ended June 30, 2017**

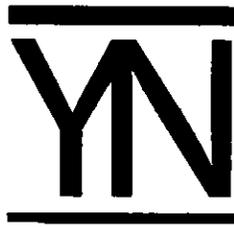
| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>(Negative)</u> |
| REVENUES | | | | |
| Intergovernmental | \$ 619,500 | \$ 634,500 | \$ 639,667 | \$ 5,167 |
| Other | - | - | - | - |
| Interest | <u>1,500</u> | <u>1,500</u> | <u>4,206</u> | <u>2,706</u> |
| Total Revenues | <u>621,000</u> | <u>636,000</u> | <u>643,873</u> | <u>7,873</u> |
| EXPENDITURES | | | | |
| Public works | 621,000 | 293,964 | 103,484 | 190,480 |
| Capital outlay | <u>-</u> | <u>342,036</u> | <u>342,036</u> | <u>-</u> |
| Total expenditures | <u>621,000</u> | <u>636,000</u> | <u>445,520</u> | <u>190,480</u> |
| Excess of revenues over/(under) expenditures | <u>-</u> | <u>-</u> | <u>198,353</u> | <u>198,353</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balance | - | - | 198,353 | 198,353 |
| Fund balance, beginning of year | <u>265,708</u> | <u>265,708</u> | <u>265,708</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 265,708</u> | <u>\$ 265,708</u> | <u>\$ 464,061</u> | <u>\$ 198,353</u> |
| Excess of revenues and other financing sources (uses) over expenditures and other financing uses (budgetary basis) | | | \$ 198,353 | |
| Adjustments: | | | | |
| To adjust expenditures for payable accruals | | | <u>-</u> | |
| Excess of revenues and other financing sources (uses) over expenditures and other financing uses (GAAP basis) | | | <u>\$ 198,353</u> | |

**City of Hopkinsville, Kentucky
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2017**

| | Capital Fund | Section 108 CDBG Loan Fund | City Hall/PD Construction Fund | WINS Construction Fund | Total Nonmajor Capital Projects Funds |
|--------------------------------------|-------------------|----------------------------------|--------------------------------------|------------------------------|--|
| ASSETS | | | | | |
| Pooled cash and cash equivalents | \$ 755,390 | \$ - | \$ - | \$ - | \$ 755,390 |
| Non-pooled cash and cash equivalents | - | 331,584 | 85,827 | 916,917 | 1,334,328 |
| Loans receivable | - | - | - | - | - |
| Total assets | <u>\$ 755,390</u> | <u>\$ 331,584</u> | <u>\$ 85,827</u> | <u>\$ 916,917</u> | <u>\$ 2,089,718</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 65,814 | \$ 17,929 | - | - | \$ 83,743 |
| Total liabilities | <u>65,814</u> | <u>17,929</u> | <u>-</u> | <u>-</u> | <u>83,743</u> |
| FUND BALANCES | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | 689,576 | 313,655 | 85,827 | 916,917 | 2,005,975 |
| Committed | - | - | - | - | - |
| Assigned | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| Total fund balances | <u>689,576</u> | <u>313,655</u> | <u>85,827</u> | <u>916,917</u> | <u>2,005,975</u> |
| Total liabilities and fund balances | <u>\$ 755,390</u> | <u>\$ 331,584</u> | <u>\$ 85,827</u> | <u>\$ 916,917</u> | <u>\$ 2,089,718</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, 2017

| | Capital Fund | Section 108 CDBG Loan Fund | City Hall/PD Construction Fund | WINS Construction Fund | Total Nonmajor Capital Projects Funds |
|---|--------------------|----------------------------------|--------------------------------------|------------------------------|--|
| REVENUES | | | | | |
| Investment income | \$ - | \$ 2,729 | \$ 1,618 | \$ 2,414 | \$ 6,761 |
| Insurance proceeds | - | - | - | - | - |
| Donations | 50 | - | - | - | 50 |
| Other revenue | - | - | - | - | - |
| Total revenues | <u>50</u> | <u>2,729</u> | <u>1,618</u> | <u>2,414</u> | <u>6,811</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 14,385 | - | - | - | 14,385 |
| Public safety | 26,339 | - | - | - | 26,339 |
| Public works | 3,935 | - | - | - | 3,935 |
| Community development | 3,491 | 314 | - | - | 3,805 |
| Parks and recreation | 31,895 | - | - | - | 31,895 |
| Debt service: | | | | | |
| Principal | 216,258 | - | - | - | 216,258 |
| Interest | 17,497 | - | - | - | 17,497 |
| Expenditures | - | - | - | - | - |
| Capital outlay | <u>1,124,176</u> | <u>17,930</u> | <u>131,405</u> | <u>85,497</u> | <u>1,359,008</u> |
| Total expenditures | <u>1,437,976</u> | <u>18,244</u> | <u>131,405</u> | <u>85,497</u> | <u>1,673,122</u> |
| Excess of revenues over (under) expenditures | <u>(1,437,926)</u> | <u>(15,515)</u> | <u>(129,787)</u> | <u>(83,083)</u> | <u>(1,666,311)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 979,666 | - | 7,500 | 1,000,000 | 1,987,166 |
| Transfers out | - | - | - | - | - |
| Issuance of debt | - | - | - | - | - |
| Total other financing sources (uses) | <u>979,666</u> | <u>-</u> | <u>7,500</u> | <u>1,000,000</u> | <u>1,987,166</u> |
| Net change in fund balances | (458,260) | (15,515) | (122,287) | 916,917 | 320,855 |
| Fund balances, beginning of year | <u>1,147,836</u> | <u>329,170</u> | <u>208,114</u> | <u>-</u> | <u>1,685,120</u> |
| Fund balances, end of year | <u>\$ 689,576</u> | <u>\$ 313,655</u> | <u>\$ 85,827</u> | <u>\$ 916,917</u> | <u>\$ 2,005,975</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, 2017, 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 December 30, 2017.

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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

York, Neel + Associates, LLP

Hopkinsville, Kentucky
December 30, 2017