

**HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2016**

**COMMISSIONERS**

**Elizabeth McCoy, Chairman  
Calvin Givens, Vice Chairman  
Jim Blair  
Charles Turner  
Patricia Bell, Council Member**

**ATTORNEY**

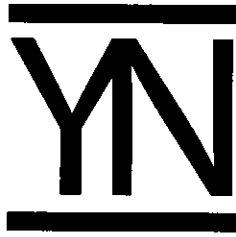
**Dan Kemp**

**PRESIDENT AND CEO**

**Derrick W. Watson**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Exhibit A – Statements of Net Position	11
Exhibit B – Statements of Revenues, Expenses and Changes in Net Position	13
Exhibit C – Statements of Cash Flows	14
Notes to Financial Statements	16
Required Supplementary Information:	
County Employees' Retirement System (CERS):	
Schedules of HWEA's Proportionate Share of the Net Pension Liability	43
Schedules of Contributions	44
Supporting Schedules:	
Schedules:	
1 - Combining Schedule of Net Position	45
2 - Combining Schedule of Revenues, Expenses and Changes in Net Position	48
3 - Schedule of Property, Plant and Equipment	49
4 - Schedule of Sinking Fund Requirements	51
5 - Schedules of Operating Expenses	52
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56



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

## **INDEPENDENT AUDITORS' REPORT**

To the Members of the  
City of Hopkinsville Sewerage and  
Water Works Commission d/b/a  
Hopkinsville Water Environment Authority  
Hopkinsville, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise HWEA'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 audits. We conducted our audits 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.

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 business-type activities of HWEA, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years 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, budgetary comparison information and pension schedules on pages 4 through 10 and pages 43 and 44 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 HWEA's basic financial statements. The combining schedules and other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules and other supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules and other supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, on our consideration of HWEA'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 HWEA's internal control over financial reporting and compliance.

*York, Neel & Associates, LLP*

Hopkinsville, Kentucky  
January 25, 2017

**Management's Discussion and Analysis  
(Required Supplementary Information)**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Hopkinsville Water Environment Authority Water, Sewer, and Gas Departments (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the basic financial statements to enhance their understanding of financial performance.

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**FINANCIAL HIGHLIGHTS**

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- For the year ended June 30, 2016, HWEA's total assets and deferred outflows of resources increased \$1.20 million, while total liabilities and deferred inflows of resources increased \$788 thousand, resulting in total net position increasing approximately \$413 thousand over the course of the year's operations.
- Long-term debt for the year ended June 30, 2016, increased, which is, in part, due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB No. 68*. These statements were implemented as of June 30, 2015, and resulted in HWEA's reporting a net pension liability of \$5,081,523 and \$3,708,000 at June 30, 2016 and 2015, respectively.
- Additional changes in long-term debt were the result of HWEA's taking draws from certain Kentucky Infrastructure Authority loans as well as from two lines of credit from a local bank in order to finance various ongoing construction projects.
- HWEA's operating revenues increased 1.88% during the year ended June 30, 2016, while operating expenses increased 13.67%. HWEA implemented a 9.5% water rate increase in January 2016, which helps explain the increase in operating revenues. The largest increase in total operating expenses comes from administrative and general expenses, which is a result of the increased net pension liability. The next largest increase in total operating expenses is depreciation expense, which is a result of purchasing equipment as well as placing into service various construction and rehabilitation projects and several water and sewer mains.
- HWEA recorded a loss on sale of fixed assets of \$201,134 for the year ended June 30, 2016. This is a result of disposing of various assets that were not fully depreciated at the time of disposal.
- Interest expense on outstanding debt decreased \$53,622 during the year ended June 30, 2016, which is a result of paying down long-term debt.
- Bond issuance costs decreased from \$259,402 for the year ended June 30, 2015, to zero for the year ended June 30, 2016. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires that bond issuance costs be expensed; however, no new bonds were issued during the year ended June 30, 2016, which explains the decrease.



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

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This annual report includes the management's discussion and analysis, the independent auditors' report, and the basic financial statements of HWEA. The financial statements also include notes that explain in more detail some of the information in the financial statements.

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**REQUIRED FINANCIAL STATEMENTS**

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The financial statements of HWEA report information using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The Statement of Net Position includes all of HWEA's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position; and it provides information about the nature and amounts of investments in resources (assets) and the obligations to HWEA's creditors (liabilities). It also provides the basis for evaluating the capital structure of HWEA and assessing the liquidity and financial flexibility of HWEA.

All of HWEA's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of HWEA's operations for the years ended June 30, 2016 and 2015, and can be used to determine profitability, credit worthiness, and whether HWEA has successfully recovered all of its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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**FINANCIAL ANALYSIS OF THE HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**

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The most common financial question posed to the Hopkinsville Water Environment Authority is "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about HWEA's activities in a way that will help answer this question.

These two statements report the net position of HWEA and the changes in net position for the year. One can think of HWEA's net position – the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in HWEA's net position is an indicator of whether its financial health is improving or deteriorating. However, one will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**NET POSITION**

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To begin our analysis, a summary of HWEA's Statement of Net Position is presented in Table A-1.

**Table A-1  
Condensed Statements of Net Position  
(000's)**

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$13,491	\$14,448	\$ (957)	(6.62)%
Capital Assets	108,208	106,575	1,633	1.53 %
Deferred Outflows of Resources	<u>1,707</u>	<u>1,182</u>	<u>525</u>	<u>44.42 %</u>
Total Assets and Deferred Outflows of Resources	<u>123,406</u>	<u>122,205</u>	<u>1,201</u>	<u>0.98 %</u>
Long-term Debt Outstanding	74,576	73,149	1,427	1.95 %
Other Liabilities	1,268	2,916	(1,648)	(56.52)%
Deferred Inflows of Resources	<u>1,864</u>	<u>855</u>	<u>1,009</u>	<u>118.01 %</u>
Total Liabilities and Deferred Inflows of Resources	<u>77,708</u>	<u>76,920</u>	<u>788</u>	<u>1.02 %</u>
Net Investment in				
Capital Assets	40,853	41,798	(945)	(2.26)%
Restricted	2,221	1,456	765	52.54 %
Unrestricted	<u>2,624</u>	<u>2,031</u>	<u>593</u>	<u>29.20 %</u>
Total Net Position	<u>\$45,698</u>	<u>\$45,285</u>	<u>\$ 413</u>	<u>0.91 %</u>

As can be seen from the table above, net position increased \$413 thousand during the year ended June 30, 2016, as a result of increases in total assets and deferred outflows of resources as well as increases in total liabilities and deferred inflows of resources. The increase in capital assets is largely due to significant ongoing water, sewer, and natural gas construction projects. A portion of the increase to deferred outflows of resources comes from deferred refunding costs associated with the issuance of two general obligation bonds by the City of Hopkinsville on behalf of HWEA during the year ended June 30, 2015, to refund certain older bonds to achieve debt savings. Draws on various loans from KIA toward construction projects help to explain the increase in long-term debt outstanding. Another factor for the increase in long-term debt is the requirement per GASBS No. 68 to record HWEA's portion of the net pension liability associated with the statewide local government retirement plan in which HWEA participates. GASBS No. 68 also accounts for changes to both deferred inflows and outflows of resources. The reason for the decrease in other liabilities is mainly due to fewer payables due to contractors working on various construction projects at June 30, 2016.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**CHANGES IN NET POSITION**

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While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

A summary of HWEA's Statement of Revenues, Expenses and Changes in Net Position is presented in Table A-2.

**Table A-2  
Condensed Statements of Revenues,  
Expenses and Changes in Net Position  
(000's)**

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	\$ 15,082	\$ 14,803	\$ 279	1.88 %
Nonoperating Revenues	<u>216</u>	<u>145</u>	<u>71</u>	<u>48.97 %</u>
Total Revenues	<u>15,298</u>	<u>14,948</u>	<u>350</u>	<u>2.34 %</u>
Depreciation Expense	4,353	3,915	438	11.19 %
Other Operating Expenses	9,205	8,011	1,194	14.90 %
Interest Expense	1,389	1,443	(54)	(3.74)%
Other Nonoperating Expenses	<u>275</u>	<u>301</u>	<u>(26)</u>	<u>(8.64)%</u>
Total Expenses	<u>15,222</u>	<u>13,670</u>	<u>1,552</u>	<u>11.35 %</u>
Income/(Loss) before Contributions and Transfers	76	1,278	(1,202)	(94.05)%
Capital Contributions	<u>337</u>	<u>89</u>	<u>248</u>	<u>278.65 %</u>
Change in Net Position	<u>413</u>	<u>1,367</u>	<u>(954)</u>	<u>69.79 %</u>
Beginning Net Position	<u>45,285</u>	<u>43,918</u>	<u>1,367</u>	<u>3.11 %</u>
Ending Net Position	<u>\$ 45,698</u>	<u>\$ 45,285</u>	<u>\$ 413</u>	<u>0.91 %</u>

As can be seen from the table above, operating revenues increased \$279 thousand, which is a result of increases in the water rate that went into effect during the year ended June 30, 2016. Depreciation expense increased \$438 thousand due to purchasing equipment as well as placing into service various construction and rehabilitation projects and several water and sewer mains during the year ended June 30, 2016. The main reason for the \$1.19 million increase in other operating expenses is from increases in general and administrative expenses pertaining to employee benefits as a result of the requirements of GASBS No. 68. Capital contributions increased \$248 thousand due to receiving grant money from the state of Kentucky during the year ended June 30, 2016, to help fund certain construction projects.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**BUDGETARY HIGHLIGHTS**

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HWEA adopts an annual Operating Budget, which includes proposed expenses and the means of financing them. This operating budget remains in effect the entire year.

**Table A-3  
Budget vs. Actual  
FY 2016  
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$ 15,450	\$ 15,082	\$ (368)
Nonoperating revenues	80	216	136
Operating expenses and depreciation	(13,097)	(13,558)	(461)
Nonoperating expenses	<u>(1,821)</u>	<u>(1,664)</u>	<u>157</u>
Income (loss) before contributions and transfers	<u>\$ 612</u>	<u>\$ 76</u>	<u>\$ (536)</u>

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**CAPITAL ASSETS**

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At June 30, 2016, HWEA had \$180 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2016 and 2015, various capital assets were purchased and/or constructed and placed into service, and various capital assets were disposed of either because the asset had been sold or was no longer in service.

Construction in progress at June 30, 2016, consisted primarily of work done on various sewer projects including the rehabilitation of several sewage pumping stations. Work being done on the installation of natural gas lines and various water related projects is also included in the balance. Several projects were completed during the year ended June 30, 2016, and placed into service, with the largest projects being the rehabilitation of the Oak Grove sewage pumping station and the installation of several sewer mains and laterals. See Note 12 to the financial statements for information on construction commitments.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**CAPITAL ASSETS (cont.)**

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**Table A-4  
Capital Assets**

	FY 2016	FY 2015	Dollar Change	Percent Change
Water	\$ 87,523,794	\$ 86,027,244	\$ 1,496,550	1.74 %
Sewerage	90,270,584	88,670,947	1,599,637	1.80 %
Gas	2,699,269	1,089,912	1,609,357	147.66 %
	180,493,647	175,788,103	4,705,544	2.68 %
Less: Accumulated Depreciation	(72,285,751)	(69,212,849)	(3,072,902)	(4.44)%
Net Property, Plant and Equipment	<u>\$108,207,896</u>	<u>\$106,575,254</u>	<u>\$ 1,632,642</u>	<u>1.53 %</u>

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**DEBT ADMINISTRATION**

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The revenues of the water and sewer systems collateralize outstanding revenue bonds and debt from the Kentucky Infrastructure Authority. After operation and maintenance expenses are paid, the ordinances specify that revenue bond funds be established and maintained. HWEA is in compliance with all bond ordinances. Debt obtained from the Kentucky Infrastructure Authority is for the purposes of upgrading and expanding the water and sewer systems.

HWEA acquired the sewerage system of the City of Oak Grove, Kentucky at the end of fiscal year 2008. As part of the payment of the purchase price, HWEA agreed to assume the debt relating to the City of Oak Grove sewerage system.

More detailed information about all of HWEA's long-term liabilities is presented in Note 6 to the financial statements.

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**OTHER INFORMATION SIGNIFICANT TO OPERATIONS**

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A series of sewer rate increases were approved, and the first rate increase became effective on July 1, 2011. Additional sewer rate increases were effective July 1, 2012, July 1, 2013, and July 1, 2014. A series of water rate increases were also approved, with the first increase effective January 1, 2014. Additional water rate increases were effective January 1, 2015, and January 1, 2016. A subsequent water rate increase will become effective July 1, 2017. A series of subsequent sewer rate increases will become effective July 1, 2018, 2019, and 2020, with a possible fourth increase on July 1, 2021. These future increases will impact water and sewer revenues of HWEA for the coming years.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**OTHER INFORMATION SIGNIFICANT TO OPERATIONS (cont.)**

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During the year ended June 30, 2015, HWEA entered into agreements with the U.S. Army Corps of Engineers 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 being 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 the U.S. Army Corps of Engineers.

Subsequent to the year ended June 30, 2016, HWEA entered into a contract with Moore Construction Company, Inc. of Clarksville, Tennessee for approximately 5.6 miles of twenty-inch ductile iron water main along US Highway 41A. This project will serve the Fort Campbell Army Post with a redundant connection for domestic water supply and has an estimated contract cost of \$4,473,826. Financing for the project is to be provided by a local bank.

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**FINAL COMMENTS**

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This financial report is designed to provide our customers and creditors with a general overview of HWEA's finances and to demonstrate accountability for funds received. Anyone having questions regarding the report or desiring additional information may contact Derrick Watson, President and CEO, Hopkinsville Water Environment Authority, 401 East 9<sup>th</sup> Street, Hopkinsville, KY 42240 or by phone (270) 887-4246.

# **Financial Statements**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENTS OF NET POSITION  
June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,849,867	\$ 5,291,108
Customer receivables	1,063,567	973,376
Inventory	296,869	312,826
Prepaid insurance	33,796	26,450
Accrued interest on note receivable	444	485
	<b>6,244,543</b>	<b>6,604,245</b>
<b>Restricted assets:</b>		
Cash and cash equivalents	5,127,645	6,852,673
Investments	232,531	231,370
	<b>5,360,176</b>	<b>7,084,043</b>
<b>Property, plant and equipment:</b>		
Property, plant and equipment	173,061,696	168,553,314
Unclassified plant - construction in progress, engineering fees, and other costs	7,431,951	7,234,789
Accumulated depreciation	(72,285,751)	(69,212,849)
	<b>108,207,896</b>	<b>106,575,254</b>
<b>Notes receivable</b>	<b>270,464</b>	<b>316,458</b>
<b>Other receivables</b>	<b>1,615,319</b>	<b>442,844</b>
<b>Deferred outflows of resources:</b>		
Pension	1,086,334	487,244
Deferred refunding costs	620,850	694,910
	<b>1,707,184</b>	<b>1,182,154</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 123,405,582</b>	<b>\$ 122,204,998</b>

Continued



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENTS OF NET POSITION (continued)  
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 2,583,180	\$ 2,519,604
Payable to City of Hopkinsville, current portion	1,475,000	1,235,000
Customer deposits	94,818	89,178
Accrued interest	292,442	288,020
Construction retainage payable	230,492	289,158
Accounts payable	356,097	720,186
Accounts payable - restricted	280	77,613
Construction contracts payable	124,771	1,349,400
Accrued salaries	169,147	102,892
Accrued compensated absences	<u>165,425</u>	<u>219,597</u>
Total current liabilities	<u>5,491,652</u>	<u>6,890,648</u>
<b>Long-term debt:</b>		
Revenue bonds payable, net of current portion	2,838,353	3,223,714
KIA loans payable, net of current portion	39,338,434	38,665,649
Revenue leases - Planters	1,596,128	440,937
Payable to City of Hopkinsville, net of current portion	21,302,668	22,940,539
Net pension liability	5,081,523	3,708,000
Compensated absences, net of current portion	<u>195,401</u>	<u>195,854</u>
Total long-term debt	<u>70,352,507</u>	<u>69,174,693</u>
Total liabilities	<u>75,844,159</u>	<u>76,065,341</u>
<b>Deferred inflows of resources:</b>		
Deferred revenue - USACE	1,615,319	440,937
Pension	<u>248,352</u>	<u>414,000</u>
Total deferred inflows of resources	<u>1,863,671</u>	<u>854,937</u>
<b>Net position:</b>		
Net investment in capital assets	40,853,211	41,798,006
Restricted:		
Capital asset acquisition	-	68,306
Debt reserves	2,221,152	1,386,982
Unrestricted	<u>2,623,389</u>	<u>2,031,426</u>
Total net position	<u>45,697,752</u>	<u>45,284,720</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 123,405,582</u>	<u>\$ 122,204,998</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**  
**WATER, SEWER, AND GAS DEPARTMENTS**  
**A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating revenues:</b>		
Charges for services (net of allowances of \$110,626 and \$175,605 for 2016 and 2015, respectively)	\$ 14,951,318	\$ 14,659,265
Other operating revenue	<u>130,962</u>	<u>143,983</u>
Total operating revenues	<u>15,082,280</u>	<u>14,803,248</u>
<b>Operating expenses:</b>		
Water source of supply	324,451	349,798
Water purification	1,231,703	1,133,296
Water distribution	557,033	535,390
Sewerage plant	2,203,600	1,944,288
Sewerage mains and laterals	388,366	412,973
Administrative and general	4,299,788	3,455,907
Technical services	199,692	180,941
Depreciation	<u>4,353,078</u>	<u>3,914,704</u>
Total operating expenses	<u>13,557,711</u>	<u>11,927,297</u>
Operating income	<u>1,524,569</u>	<u>2,875,951</u>
<b>Nonoperating revenues (expenses):</b>		
Interest revenue	55,421	58,489
Gain (loss) on sale of fixed assets	(201,134)	14,871
Amortization of deferred refunding costs	(74,067)	(41,689)
Amortization of debt discounts and premiums	160,731	72,041
Bond issuance costs	-	(259,402)
Interest expense	<u>(1,389,138)</u>	<u>(1,442,760)</u>
Total nonoperating revenues (expenses)	<u>(1,448,187)</u>	<u>(1,598,450)</u>
Income (loss) before contributions and transfers	76,382	1,277,501
<b>Capital contributions:</b>		
Capital assets contributed by developers	79,100	89,057
Grant income	<u>257,550</u>	<u>-</u>
Change in net position	413,032	1,366,558
<b>Net position - beginning of year</b>	<u>45,284,720</u>	<u>43,918,162</u>
<b>Net position - end of year</b>	<u>\$ 45,697,752</u>	<u>\$ 45,284,720</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 14,866,767	\$ 14,775,858
Paid to suppliers for goods and services	(4,540,559)	(3,666,650)
Paid to employees for services - including benefits	(4,476,470)	(4,177,993)
Other operating revenue	<u>130,962</u>	<u>143,983</u>
Net cash provided (used) by operating activities	<u>5,980,700</u>	<u>7,075,198</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(7,143,021)	(5,654,073)
Proceeds from disposition of fixed assets	9,522	24,912
Proceeds of capital debt	4,023,655	24,301,048
Principal paid on capital debt	(3,754,611)	(22,628,078)
Interest paid on capital debt	<u>(1,384,716)</u>	<u>(1,431,352)</u>
Net cash provided (used) by capital and related financing activities	<u>(8,249,171)</u>	<u>(5,387,543)</u>
<b>Cash flows from investing activities</b>		
Collection of note receivable	47,901	83,271
Interest earned on investments and reinvested	<u>54,301</u>	<u>57,545</u>
Net cash provided (used) by investing activities	<u>102,202</u>	<u>140,816</u>
Net increase (decrease) in cash and cash equivalents	(2,166,269)	1,828,471
Cash and cash equivalents at beginning of year (includes restricted assets of \$6,852,673 and \$4,725,700 for 2016 and 2015, respectively)	<u>12,143,781</u>	<u>10,315,310</u>
Cash and cash equivalents at end of year (includes restricted assets of \$5,127,645 and \$6,852,673 for 2016 and 2015, respectively)	<u>\$ 9,977,512</u>	<u>\$ 12,143,781</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, HOPKINSVILLE  
STATEMENTS OF CASH FLOWS (continued)  
For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
<b>Cash flows from operating activities</b>		
Operating income	\$ 1,524,569	\$ 2,875,951
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,353,078	3,914,704
Pension expense (GASBS No. 68)	608,785	(65,929)
Changes in assets and liabilities		
(Increase)/decrease in customer receivables	(90,191)	106,239
(Increase)/decrease in inventory	15,957	(66,435)
(Increase)/decrease in prepaid expenses	(7,346)	11,232
Increase/(decrease) in accounts payable	(441,422)	272,880
Increase/(decrease) in customer deposits	5,640	10,354
Increase/(decrease) in accrued salaries and compensated absences	<u>11,630</u>	<u>16,202</u>
Net cash provided (used) by operating activities	<u>\$ 5,980,700</u>	<u>\$ 7,075,198</u>
<b><u>Noncash Capital and Related Financing and Investing Items</u></b>		
Capitalized interest	\$ 404,066	\$ 321,042
Capital assets contributed by developers	79,100	89,057

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Reporting Entity

The Hopkinsville Water Environment Authority (HWEA) is responsible for sewerage and water services for residents of the City of Hopkinsville, KY (City), the City of Pembroke, KY, and the City of Crofton, KY. HWEA is also responsible for sewerage services for residents of the City of Oak Grove, KY. The City's governing body appoints HWEA's governing board. The City's governing body also approves the rates for user charges and bond issuance authorizations. The legal liability for the general obligation portion of HWEA's debt remains with the City. HWEA is shown as a discretely presented component unit in the City's financial statements.

b. Basis of Accounting

The operations of HWEA are accounted for as a governmental enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations which are financed and operated in a manner similar to private business enterprises in that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Proprietary fund types use the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. HWEA applies all GASB pronouncements that are applicable to enterprise funds.

The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net position 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.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

b. Basis of Accounting, continued

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

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.

c. Separate Accounting

On December 17, 1992, HWEA was approved for a low interest loan from the Kentucky Infrastructure Authority (KIA). Due to federal requirements under this loan program, HWEA as of July 1, 1993, began accounting for the water and sewer systems separately. Beginning July 1, 2014, HWEA also began separately accounting for natural gas transactions. See Supplemental Schedules and Note 8 for information on segment reporting.

d. Cash and Cash Equivalents, Deposits and Investments

HWEA invests all deposits not necessary for current expenditures. Investments are stated at cost, which approximates market value.

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

As security for deposits of HWEA, any bank is generally required to pledge securities in an amount to exceed funds on deposit by HWEA. In addition, HWEA 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 HWEA are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

e. Inventories

Inventories consist of expendable supplies held for consumption stated at cost, which approximates market, determined by the weighted-average method.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

f. Prepaid Expenses

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

g. Restricted Assets

Certain proceeds of revenue and general obligation bonds of HWEA, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "Bond and Interest Redemption" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "Depreciation" and "Equipment Maintenance and Replacement" accounts are used to report resources set aside for unusual or extraordinary maintenance, repairs, renewals and/or replacements or extensions, additions and/or improvements. The "Construction" account is used to report bond proceeds restricted for use in the cost of future expansion and rehabilitation. The "Unemployment" account is used to accumulate funds to provide for possible claims. Reservations of equity show amounts that are not appropriate for expenditures or are legally restricted for specific uses. HWEA first applies restricted resources for expenditures for which both restricted and unrestricted net position are available.

Below is a summary of the various restricted asset accounts as of June 30:

	<u>2016</u>	<u>2015</u>
Bond and interest redemption fund	\$ 206,479	\$ 38,373
Construction fund	3,144,985	5,632,780
Equipment maintenance and replacement fund	1,982,660	1,386,982
Unemployment fund	<u>26,052</u>	<u>25,908</u>
Total restricted assets	<u>\$ 5,360,176</u>	<u>\$ 7,084,043</u>

For the years ended June 30, 2016 and 2015, the equipment maintenance and replacement fund includes \$1,982,660 and \$1,386,982, respectively, to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority. For the years ended June 30, 2016 and 2015, the construction fund includes \$3,112,972 and \$5,632,780, respectively, of unspent bonds proceeds from the 2013B and 2014B general obligation bonds that were issued by the City of Hopkinsville on behalf of HWEA, as well as funds drawn from two loans with a local bank to pay for costs of certain ongoing construction projects.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

h. Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of the respective asset. Property, plant and equipment donated to HWEA are recorded at their estimated fair value at the date of donation. HWEA maintains a capitalization threshold of \$2,500.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the constructed asset, net of interest earned on the invested proceeds over the same period.

i. Compensated Absences

HWEA accrues vacation benefits as earned by its employees if the leave is attributable to past service and it is probable that HWEA will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. HWEA also accrues sick leave benefits. Upon retirement from HWEA, a maximum of six months of the employee's sick leave balance shall be added to his/her service credit for the purpose of determining his/her annual retirement allowance. HWEA accrues 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.

j. Long-term Debt

Per GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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 method.

During the year ended June 30, 2015, three separate bonds were issued by the City of Hopkinsville on behalf of HWEA. The 2014B bonds were issued to finance a portion of the natural gas project; the 2014C bonds were issued to currently refund the 2001H and 2004B KY Rural Water Finance bonds associated with the Oak Grove sewer system; and the 2015A bonds were issued to advance refund the 2005A bonds associated with the Lake Barkley Raw Water Project. Both refundings were done to achieve debt savings. GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized.



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

k. Capital Contributions

Contributed capital is recorded for receipt of capital grants or contributions from developers, customers or other sources.

l. 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 so will not be recognized as an outflow of resources (expense/expenditure) until that future period. Items being reported in this category 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.

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 so will not be recognized as an inflow of resources (revenue) until that time. HWEA has two items that qualify for reporting in this category. The first item is deferred inflows associated with its pension plan that will be recognized in pension expense in future years. The second item is 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.

m. Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted and unrestricted. Unrestricted net position represents net assets available for future operations or distribution.

n. 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.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

o. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 results could differ from those estimates.

**2. DEPOSITS AND INVESTMENTS**

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

a. Deposits

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that in the event of bank failure, HWEA's deposits may not be returned, or HWEA will not be able to recover collateral securities in the possession of an outside party. Kentucky state law requires that all of HWEA's funds be fully insured or collateralized. As of June 30, 2016, none of HWEA's deposited funds were exposed to custodial credit risk. As of June 30, 2015, \$1,956,863 of HWEA's deposited funds were exposed to custodial credit risk. This exposure was corrected by July 31, 2015, when various accounts were transferred to another bank.

b. Investments

<u>Investments as of June 30, 2016:</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Planters Bank CD	n/a	\$ 206,479	\$ 206,479
Planters Bank CD	n/a	<u>26,052</u>	<u>26,052</u>
Total		<u>\$ 232,531</u>	<u>\$ 232,531</u>
<u>Investments as of June 30, 2015:</u>			
Planters Bank CD	n/a	\$ 205,462	\$ 205,462
Planters Bank CD	n/a	<u>25,908</u>	<u>25,908</u>
Total		<u>\$ 231,370</u>	<u>\$ 231,370</u>

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, HWEA 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 counter party or a counter party's trust department or agent, but not in the government's name. As of June 30, 2016 and 2015, none of HWEA's investments were exposed to custodial credit risk.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**2. DEPOSITS AND INVESTMENTS, continued**

b. Investments, continued

Credit Risk:

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. HWEA has no investment policy that limits its investment choices other than the limitations of Kentucky Revised Statute 66.480 that permits HWEA to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial bank certificates, savings and loan deposits, and the Commonwealth of Kentucky investment pool.

Concentration of Credit Risk:

HWEA places no limit on the amount that may be invested in any one issuer. HWEA's investments are in certificates of deposit. Investments in 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. HWEA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk:

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

**3. RECEIVABLES**

Net customer receivables include the following as of June 30:

	<u>2016</u>	<u>2015</u>
Customer accounts receivable	\$1,039,419	\$ 929,748
Allowance for uncollectible	-	-
Miscellaneous receivables	<u>24,148</u>	<u>43,628</u>
Total receivables	<u>\$1,063,567</u>	<u>\$ 973,376</u>

Uncollectible accounts are written off as bad debts in the period in which, in management's opinion, collection is unlikely. Normally, all accounts over 90 days old are written off as bad debts.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**3. RECEIVABLES, continued**

Net bad debts for customer receivables for the year ended June 30 were as follows:

	<u>2016</u>	<u>2015</u>
Accounts charged off in current period	\$115,259	\$263,022
Recovery of accounts previously charged off	<u>(37,422)</u>	<u>(32,876)</u>
Net bad debts	<u>\$ 77,837</u>	<u>\$230,146</u>

HWEA has a note receivable from the Christian County Board of Education (CCBE) for installation of sewer lines, due in annual installments of \$32,049 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance of this receivable was \$92,790 and \$122,632 at June 30, 2016 and 2015, respectively.

HWEA also has a note receivable from the Hopkinsville Industrial Foundation for the installation of sewer lines in the industrial park, due in semi-annual installments including interest at 1.0%, due April 1, 2027. The balance of this receivable was \$177,674 and \$193,826 at June 30, 2016 and 2015, respectively.

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 these receivables was \$1,615,319 and \$440,937 at June 30, 2016 and 2015, respectively.

**4. INVENTORY**

Inventory as of June 30, 2016 and 2015, consisted of materials and supplies with a weighted-average cost of \$296,869 and \$312,826, respectively.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of June 30, 2016, is as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	7,234,789	5,755,718	5,558,556	7,431,951
Capital Assets Being Depreciated:				
Structures and improvements	156,138,357	5,407,159	1,168,011	160,377,505
Equipment	9,745,174	320,999	265,177	9,800,996
Vehicles	1,097,943	271,057	57,645	1,311,355
Less Accumulated Depreciation:				
Structures and improvements	60,585,651	3,768,400	972,887	63,381,164
Equipment	8,270,470	467,531	249,645	8,488,356
Vehicles	<u>356,728</u>	<u>117,148</u>	<u>57,645</u>	<u>416,231</u>
Total	<u>\$106,575,254</u>	<u>\$ 7,401,854</u>	<u>\$ 5,769,212</u>	<u>\$108,207,896</u>

A summary of property, plant and equipment as of June 30, 2015, is as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	5,782,357	6,006,671	4,554,239	7,234,789
Capital Assets Being Depreciated:				
Structures and improvements	150,940,878	5,203,903	6,424	156,138,357
Equipment	9,489,668	281,860	26,354	9,745,174
Vehicles	847,497	297,796	47,350	1,097,943
Less Accumulated Depreciation:				
Structures and improvements	57,196,630	3,390,306	1,285	60,585,651
Equipment	7,825,051	471,151	25,732	8,270,470
Vehicles	<u>346,552</u>	<u>53,246</u>	<u>43,070</u>	<u>356,728</u>
Total	<u>\$103,264,007</u>	<u>\$ 7,875,527</u>	<u>\$ 4,564,280</u>	<u>\$106,575,254</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$4,353,078 and \$3,914,704, respectively.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**5. PROPERTY, PLANT AND EQUIPMENT, continued**

Net interest costs relating to constructing certain assets are capitalized as part of the cost of the related asset. Total interest expense for the years ended June 30, 2016 and 2015 was \$1,793,204 and \$1,763,802, respectively. For the years ended June 30, 2016 and 2015, \$404,066 and \$321,042 of total interest costs were capitalized while the remaining \$1,389,138 and \$1,442,760 were expensed, respectively.

**6. LONG-TERM DEBT**

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

Long-term debt at June 30 is as follows:

	<u>Rate</u>	<u>2016</u>	<u>2015</u>
<u>Revenue Bonds:</u>			
Series 1998-Maturing 2021	3.750% to 4.900%	\$ 425,000	\$ 500,000
Series 2005B-Maturing 2017	3.000% to 3.750%	160,000	315,000
Series 2010B-Maturing 2030	3.200% to 4.400%	<u>2,648,000</u>	<u>2,795,500</u>
Total Revenue Bonds		<u>3,233,000</u>	<u>3,610,500</u>
<u>KIA Loans:</u>			
KIA Fund A Wastewater-Maturing 2016	1.200%	-	272,522
KIA Fund A Wastewater-Maturing 2017	1.200%	13,427	26,695
KIA Fund A Phase II-Maturing 2018	1.800%	373,037	554,601
KIA Fund C Wastewater-Maturing 2018	4.000% to 4.250%	125,000	180,000
KIA Fund A Maturing 2020	0.400%	117,239	150,435
KIA Fund A Phase III-Maturing 2021	3.800%	245,936	295,158
KIA Fund B Water Plant-Maturing 2026	1.900%	1,989,820	2,168,882
KIA Fund A Phase IV-Maturing 2026	1.000%	2,352,153	2,587,028
KIA Fund A Phase V-Maturing 2027	1.000%	1,423,011	1,544,799
KIA Fund F, Drinking Water- Maturing 2028	1.000%	944,122	1,017,816
KIA Fund F Water-Maturing 2028	3.000%	2,686,140	2,869,623
KIA Fund F Water-Maturing 2032	1.000%	7,383,936	7,793,583
KIA Fund A Sewer-Maturing 2033	2.000%	422,839	443,534
KIA Fund A Sewer-Maturing 2034	2.000%	6,866,546	7,180,631
KIA Fund A (Maturities not established-loans not closed)		<u>16,590,908</u>	<u>13,722,446</u>
Total KIA Loans		<u>41,534,114</u>	<u>40,807,753</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

	<u>Rate</u>	<u>2016</u>	<u>2015</u>
<u>Revenue Leases – Planters:</u>			
Water (loan not closed)	4.000%	\$ 590,113	\$ 158,042
Gas (loan not closed)	4.500%	<u>1,006,015</u>	<u>282,895</u>
Total Revenue Leases - Planters		<u>1,596,128</u>	<u>440,937</u>
<u>Payable to City of Hopkinsville:</u>			
General Obligation Bonds:			
Series 2013B-Maturing 2034	2.000% to 4.500%	3,255,000	3,390,000
Series 2014B-Maturing 2038	1.500% to 6.625%	1,700,000	1,700,000
Series 2014C-Maturing 2029	1.100% to 3.250%	1,500,000	1,620,000
Series 2015A-Maturing 2026	4.000%	<u>14,730,000</u>	<u>15,710,000</u>
Total Payable to City of Hopkinsville		<u>21,185,000</u>	<u>22,420,000</u>
Net Pension Liability		<u>5,081,523</u>	<u>3,708,000</u>
Compensated Absences		<u>360,826</u>	<u>415,451</u>
Total Long-Term Debt		72,990,591	71,402,641
Less: Maturities due within one year		(4,223,605)	(3,974,201)
Unamortized bond (discount) / premium		<u>1,585,521</u>	<u>1,746,253</u>
Total Long-term Debt, Net		<u>\$ 70,352,507</u>	<u>\$ 69,174,693</u>

During the year ended June 30, 2016, the following changes occurred in long-term debt:

	Principal Outstanding <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2016</u>	Due Within <u>One Year</u>
Compensated absences	\$ 415,451	\$ 153,651	\$ (208,276)	\$ 360,826	\$ 165,425*
Revenue bonds	3,610,500	-	(377,500)	3,233,000	387,500
KIA loans	40,807,753	2,868,464	(2,142,103)	41,534,114	2,195,680
Revenue leases – Planters	440,937	1,155,191	-	1,596,128	-
Payable to City of Hopkinsville:					
Gen. obligation bond – 2013B	3,390,000	-	(135,000)	3,255,000	135,000
Gen. obligation bond – 2014B	1,700,000	-	-	1,700,000	-
Gen. obligation bond – 2014C	1,620,000	-	(120,000)	1,500,000	120,000
Gen. obligation bond – 2015A	15,710,000	-	(980,000)	14,730,000	1,220,000
Net pension liability	3,708,000	1,373,523	-	5,081,523	-
Unamortized bond premium	1,755,539	-	(162,871)	1,592,668	-
Unamortized bond discount	<u>(9,286)</u>	<u>-</u>	<u>2,139</u>	<u>(7,147)</u>	<u>-</u>
Total	<u>\$ 73,148,894</u>	<u>\$ 5,550,829</u>	<u>\$ (4,123,611)</u>	<u>\$ 74,576,112</u>	<u>\$ 4,223,605</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 HWEA's management.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

During the year ended June 30, 2015, the following changes occurred in long-term debt:

	Principal Outstanding July 1, 2014	Additions	Reductions	Principal Outstanding June 30, 2015	Due Within One Year
Compensated absences	\$ 502,141	\$ 43,697	\$ (130,387)	\$ 415,451	\$ 219,597*
Revenue bonds	23,723,067	-	(20,112,567)	3,610,500	377,500
KIA loans	39,338,080	3,855,183	(2,385,510)	40,807,753	2,142,104
Revenue leases – Planters	-	440,937	-	440,937	-
Payable to City of Hopkinsville:					
Gen. obligation bond – 2013B	3,520,000	-	(130,000)	3,390,000	135,000
Gen. obligation bond – 2014B	-	1,700,000	-	1,700,000	-
Gen. obligation bond – 2014C	-	1,620,000	-	1,620,000	120,000
Gen. obligation bond – 2015A	-	15,710,000	-	15,710,000	980,000
Net pension liability	4,196,000	-	(488,000)	3,708,000	-
Unamortized bond premium	89,999	1,670,156	(4,616)	1,755,539	-
Unamortized bond discount	(222,143)	-	212,857	(9,286)	-
<b>Total</b>	<b><u>\$ 71,147,144</u></b>	<b><u>\$25,039,973</u></b>	<b><u>\$(23,038,223)</u></b>	<b><u>\$ 73,148,894</u></b>	<b><u>\$ 3,974,201</u></b>

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

**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 proceeds from the 2014C general obligation bond issued by the City of Hopkinsville on behalf of HWEA).

During the year ended June 30, 2005, the City of Hopkinsville, 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, it had interest rates ranging from 3.375% to 4.000%, and interest was due in semi-annual installments. However, during the year ended June 30, 2015, these revenue bonds were advance refunded with the proceeds of the 2015A general obligation bonds issued by the City of Hopkinsville on behalf of HWEA.

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



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

Revenue Bonds, continued:

During the year ended June 30, 2010, the City of Hopkinsville, on behalf of HWEA, issued series 2010B revenue bonds to fund the expansion of the Moss Water Treatment Plant expansion. This obligation matures in 2030. Interest rates range from 3.2% to 4.4%. Interest is due in semi-annual installments.

Annual debt service requirements projected to maturity for all revenue bonds are as follows as of June 30, 2016:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 387,500	\$ 132,988	\$ 520,488
2018	237,500	121,276	358,776
2019	249,000	111,683	360,683
2020	261,500	101,341	362,841
2021	272,500	90,039	362,539
2022-2026	995,000	309,026	1,304,026
2027-2030	830,000	84,459	914,459
Total	<u>\$ 3,233,000</u>	<u>\$ 950,812</u>	<u>\$ 4,183,812</u>

As of June 30, 2016, HWEA has pledged future revenues of the water and sewer system to repay \$3,233,000 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 the bonds are expected to require approximately 3% of such net revenues (based on principal and interest payments for the year ending June 30, 2017, as a percentage of net water and sewer system revenues for the year ended June 30, 2016, which totaled \$14,951,318). Principal and interest paid for the year ended June 30, 2016, was \$526,901. As of June 30, 2016, pledged future revenues totaled \$4,183,812, which is the amount of the remaining principal and interest payments on these bonds.

The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. HWEA is in compliance with all significant financial requirements as of June 30, 2016 and 2015.

KIA Loans:

Proceeds from KIA loans have been used 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).

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

KIA Loans, continued:

Annual debt service requirements projected to maturity for all KIA loans are as follows as of June 30, 2016:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,195,680	\$ 541,035	\$ 2,736,715
2018	2,223,112	501,567	2,724,679
2019	2,003,103	463,084	2,466,187
2020	2,020,067	429,236	2,449,303
2021	2,007,630	394,802	2,402,432
2022-2026	10,266,126	1,466,021	11,732,147
2027-2031	7,170,658	690,229	7,860,887
2032-2036	<u>13,647,738</u>	<u>169,499</u>	<u>13,817,237</u>
Total	<u>\$41,534,114</u>	<u>\$ 4,655,473</u>	<u>\$ 46,189,587</u>

As of June 30, 2016, HWEA has pledged future revenues of the water and sewer system to repay \$41,534,114 in total KIA loans established from 1996 through 2016, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2036, solely from the water and sewer system net revenues. Annual principal and interest on these loans are expected to require approximately 18% of such net revenues (based on principal and interest payments for the year ending June 30, 2017, as a percentage of net water and sewer system revenues for the year ended June 30, 2016, which totaled \$14,951,318). Principal and interest paid for the year ended June 30, 2016, was \$2,886,633. As of June 30, 2016, pledged future revenues totaled \$46,189,587, which was the amount of the remaining principal and interest payments on these KIA loans.

Revenue Leases:

During the year ended June 30, 2016, HWEA entered into an agreement with 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 this construction project, the City of Hopkinsville, 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 amounts associated with this lease will come from payments received from USACE. This lease matures July 1, 2027.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

Revenue Leases, continued:

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 for natural gas supply. In order to help finance this construction project, the City of Hopkinsville, 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 1, 2027.

Payable to City of Hopkinsville – General Obligation Bonds:

During the year ended June 30, 2014, the City of Hopkinsville, on behalf of HWEA, issued general obligation bonds (Series 2013B) for the purpose of constructing a 2MG water tank and water mains along Eagle Way Bypass and US41A and to pay other allowable expenditures including issuance costs. This obligation matures in 2034 with interest rates ranging from 2.00% to 4.50%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2014B) 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. The obligation is secured by the full taxing authority of the City of Hopkinsville.

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2014C) 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.)

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

Payable to City of Hopkinsville – General Obligation Bonds, continued:

The Series 2014C general obligation bonds were also issued to pay other allowable expenditures including issuance costs. This current refunding took place to achieve debt service savings. This obligation matures in 2029 with interest rates ranging from 1.10% to 3.25%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2015A) to advance refund the outstanding 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 interest rate of 4.00%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

Annual debt service requirements projected to maturity for amounts payable to the City of Hopkinsville for general obligation bonds are as follows as of June 30, 2016:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,475,000	\$ 772,110	\$ 2,247,110
2018	1,525,000	717,540	2,242,540
2019	1,655,000	659,613	2,314,613
2020	1,710,000	598,868	2,308,868
2021	1,775,000	534,443	2,309,443
2022-2026	9,900,000	1,588,525	11,488,525
2027-2031	1,710,000	449,106	2,159,106
2032-2036	1,210,000	135,684	1,345,684
2037-2038	225,000	8,250	233,250
Total	<u>\$21,185,000</u>	<u>\$ 5,464,139</u>	<u>\$ 26,649,139</u>

Defeasance of Debt and Current and Advance Refundings:

As noted above, refunding bonds have been issued 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 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. As of June 30, 2016 and 2015, the amount of bonds outstanding that are considered defeased is undeterminable.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**6. LONG-TERM DEBT, continued**

Defeasance of Debt and Current and Advance Refundings, continued:

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, 2016 and 2015 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 \$74,060 and \$32,375 for the years ended June 30, 2016 and 2015, respectively.

**7. PENSION PLAN**

HWEA participates in the County Employees Retirement System (CERS).

Plan Description:

Substantially all HWEA employees participate in 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>.

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%. For nonhazardous employees, HWEA contributed 17.06% of annual covered payroll for fiscal year 2016. 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%. HWEA had no employees classified as hazardous for years ended June 30, 2016 or 2015. The contribution requirements of plan members and HWEA are established and may be amended by the Kentucky Retirement Systems Board of Trustees. HWEA's contributions to CERS for nonhazardous employees were \$525,846 and \$487,244 for the years ended June 30, 2016 and 2015, respectively.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**7. PENSION PLAN, continued**

Net Pension Liabilities:

At June 30, 2016 and 2015, HWEA reported a liability of \$5,081,523 and \$3,708,000, respectively, 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, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2016 and 2015, HWEA's proportion was 0.11819% and 0.114295%, respectively, for nonhazardous pensions.

HWEA's net pension liability is shown on the statement of net position as a noncurrent liability.

Actuarial Assumptions and Other Inputs:

The total pension liability in the June 30, 2015 actuarial valuation was determined 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 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.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**7. PENSION PLAN, continued**

Actuarial Assumptions and Other Inputs, continued:

Changes in Assumptions:

Since the prior measurement date of June 30, 2014, 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 28 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 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 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.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**7. PENSION PLAN, continued**

Actuarial Assumptions and Other Inputs, continued:

Discount Rate, continued:

- 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 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 HWEA's net pension liability for its pension plan, calculated using the current discount rate, as well as what HWEA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>CERS Nonhazardous:</u>			
Discount rate	6.50%	7.50%	8.50%
Proportionate Share NPL	<u>\$6,487,195</u>	<u>\$5,081,523</u>	<u>\$3,877,689</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.



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**7. PENSION PLAN, continued**

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

For the years ended June 30, 2016 and 2015, HWEA recognized pension expense of \$608,785 and \$297,000, respectively.

At June 30, 2016, HWEA reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 33,783	\$ -
Net difference between projected and actual earnings on pension plan investments	36,442	248,352
Change in assumptions	409,933	-
Change in proportionate share	80,330	-
HWEA contributions subsequent to the measurement date of June 30, 2015	<u>525,846</u>	<u>-</u>
Total	<u>\$ 1,086,334</u>	<u>\$ 248,352</u>

The \$525,846 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date of June 30, 2015, will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other 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:	
2017	\$ 57,338
2018	57,338
2019	57,338
2020	140,122
2021	-
	<u>\$ 312,136</u>

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

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**7. PENSION PLAN, continued**

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

At June 30, 2015, HWEA reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 414,000
HWEA contributions subsequent to the measurement date of June 30, 2014	<u>487,244</u>	<u>-</u>
Total	<u>\$ 487,244</u>	<u>\$ 414,000</u>

The \$487,244 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date of June 30, 2014, were recognized as a reduction of the net pension liability in the year ended June 30, 2016.

**8. SEGMENT REPORTING**

HWEA has low interest loans from the Kentucky Infrastructure Authority (KIA) to finance its water and sewer departments. The two departments are accounted for in a single fund, but KIA relies solely on the revenue generated by the individual activities for repayment. The Water Department operates the water supply systems for Hopkinsville, Pembroke, and Crofton. The Sewer Department operates the sewage treatment plants, sewage pumping stations, and collection systems for Hopkinsville, Pembroke, Crofton, and Oak Grove. Summary financial information for each department as of and for the years ended June 30, 2016 and 2015, are presented on the following pages.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**8. SEGMENT REPORTING, continued**

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
<b>CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2016</b>				
Assets and deferred outflows of resources:				
Current assets	\$ 3,392,984	\$ 2,851,559	\$ -	\$ 6,244,543
Capital assets	56,473,300	49,035,327	2,699,269	108,207,896
Other assets	3,725,491	1,306,833	2,213,635	7,245,959
Total assets	<u>63,591,775</u>	<u>53,193,719</u>	<u>4,912,904</u>	<u>121,698,398</u>
Deferred outflows of resources	<u>1,121,670</u>	<u>585,514</u>	<u>-</u>	<u>1,707,184</u>
Liabilities:				
Current liabilities	3,227,388	2,024,100	240,164	5,491,652
Noncurrent liabilities	36,092,883	31,546,058	2,713,566	70,352,507
Total liabilities	<u>39,320,271</u>	<u>33,570,158</u>	<u>2,953,730</u>	<u>75,844,159</u>
Deferred inflows of resources	<u>715,399</u>	<u>129,436</u>	<u>1,018,836</u>	<u>1,863,671</u>
Net position:				
Net investment in capital assets (deficit)	22,287,686	18,607,315	(41,790)	40,853,211
Restricted	1,197,809	1,023,343	-	2,221,152
Unrestricted	1,192,280	448,981	982,128	2,623,389
Total net position	<u>\$ 24,677,775</u>	<u>\$ 20,079,639</u>	<u>\$ 940,338</u>	<u>\$ 45,697,752</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2016**

Operating revenues (pledged against debt)	\$ 7,591,732	\$ 7,490,548	\$ -	\$ 15,082,280
Depreciation expense	(2,031,035)	(2,322,043)	-	(4,353,078)
Other operating expenses	(4,468,811)	(4,735,822)	-	(9,204,633)
Operating income	1,091,886	432,683	-	1,524,569
Nonoperating revenues (expenses):				
Investment income	27,644	27,777	-	55,421
Other nonoperating income	159,316	1,064	351	160,731
Interest expense	(964,969)	(424,169)	-	(1,389,138)
Other nonoperating expense	(193,475)	(81,726)	-	(275,201)
Capital contributions	336,650	-	-	336,650
Transfers	<u>1,603,791</u>	<u>(1,771,194)</u>	<u>167,403</u>	<u>-</u>
Change in net position	2,060,843	(1,815,565)	167,754	413,032
Beginning net position	<u>22,616,932</u>	<u>21,895,204</u>	<u>772,584</u>	<u>45,284,720</u>
Ending net position	<u>\$ 24,677,775</u>	<u>\$ 20,079,639</u>	<u>\$ 940,338</u>	<u>\$ 45,697,752</u>

**CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2016**

Net cash provided (used) by:				
Operating activities	\$ 4,408,410	\$ 1,197,956	\$ 374,334	\$ 5,980,700
Capital and related financing activities	(4,776,249)	(2,362,338)	(1,110,584)	(8,249,171)
Investing activities	28,390	73,812	-	102,202
Net increase (decrease)	(339,449)	(1,090,570)	(736,250)	(2,166,269)
Beginning cash and cash equivalents	<u>5,757,948</u>	<u>4,454,784</u>	<u>1,931,049</u>	<u>12,143,781</u>
Ending cash and cash equivalents	<u>\$ 5,418,499</u>	<u>\$ 3,364,214</u>	<u>\$ 1,194,799</u>	<u>\$ 9,977,512</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**8. SEGMENT REPORTING, continued**

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
<b>CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2015</b>				
Assets and deferred outflows of resources:				
Current assets	\$ 1,668,910	\$ 4,935,335	\$ -	\$ 6,604,245
Capital assets	56,132,523	49,352,819	1,089,912	106,575,254
Other assets	5,299,989	329,412	2,213,944	7,843,345
Total assets	<u>63,101,422</u>	<u>54,617,566</u>	<u>3,303,856</u>	<u>121,022,844</u>
Deferred outflows of resources	<u>908,951</u>	<u>273,203</u>	<u>-</u>	<u>1,182,154</u>
Liabilities:				
Current liabilities	3,340,093	3,292,975	257,580	6,890,648
Noncurrent liabilities	37,695,793	29,488,103	1,990,797	69,174,693
Total liabilities	<u>41,035,886</u>	<u>32,781,078</u>	<u>2,248,377</u>	<u>76,065,341</u>
Deferred inflows of resources	<u>357,555</u>	<u>214,487</u>	<u>282,895</u>	<u>854,937</u>
Net position:				
Net investment in capital assets	22,222,261	19,072,839	502,906	41,798,006
Restricted	1,455,288	-	-	1,455,288
Unrestricted (deficit)	(1,060,617)	2,822,365	269,678	2,031,426
Total net position	<u>\$ 22,616,932</u>	<u>\$ 21,895,204</u>	<u>\$ 772,584</u>	<u>\$ 45,284,720</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2015**

Operating revenues (pledged against debt)	\$ 7,327,500	\$ 7,475,748	\$ -	\$ 14,803,248
Depreciation expense	(1,845,424)	(2,069,280)	-	(3,914,704)
Other operating expenses	(3,845,339)	(4,167,254)	-	(8,012,593)
Operating income	<u>1,636,737</u>	<u>1,239,214</u>	<u>-</u>	<u>2,875,951</u>
Nonoperating revenues (expenses):				
Investment income	31,635	26,854	-	58,489
Other nonoperating income	80,091	6,645	176	86,912
Interest expense	(1,002,969)	(439,791)	-	(1,442,760)
Other nonoperating expense	(192,423)	(47,888)	(60,780)	(301,091)
Capital contributions	89,057	-	-	89,057
Transfers	<u>530,146</u>	<u>(1,363,334)</u>	<u>833,188</u>	<u>-</u>
Change in net position	<u>1,172,274</u>	<u>(578,300)</u>	<u>772,584</u>	<u>1,366,558</u>
Beginning net position - as restated	<u>21,444,658</u>	<u>22,473,504</u>	<u>-</u>	<u>43,918,162</u>
Ending net position	<u>\$ 22,616,932</u>	<u>\$ 21,895,204</u>	<u>\$ 772,584</u>	<u>\$ 45,284,720</u>

**CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2015**

Net cash provided (used) by:				
Operating activities	\$ 4,548,624	\$ 1,956,459	\$ 570,115	\$ 7,075,198
Capital and related financing activities	(4,608,576)	(2,139,901)	1,360,934	(5,387,543)
Investing activities	<u>36,191</u>	<u>104,625</u>	<u>-</u>	<u>140,816</u>
Net increase (decrease)	<u>(23,761)</u>	<u>(78,817)</u>	<u>1,931,049</u>	<u>1,828,471</u>
Beginning cash and cash equivalents	<u>5,781,709</u>	<u>4,533,601</u>	<u>-</u>	<u>10,315,310</u>
Ending cash and cash equivalents	<u>\$ 5,757,948</u>	<u>\$ 4,454,784</u>	<u>\$ 1,931,049</u>	<u>\$ 12,143,781</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**9. BUDGET**

Bond ordinances require that HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for the year ended June 30, 2016, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 15,450,225	\$15,082,280	\$ (367,945)
Other Operating Expenses	(9,037,433)	(9,204,633)	(167,200)
Depreciation Expense	<u>(4,059,650)</u>	<u>(4,353,078)</u>	<u>(293,428)</u>
 Operating Income	 2,353,142	 1,524,569	 (828,573)
 Nonoperating Revenues	 80,200	 216,152	 135,952
Nonoperating Expenses	<u>(1,821,100)</u>	<u>(1,664,339)</u>	<u>156,761</u>
 Income before Contributions and Transfers	 <u>\$ 612,242</u>	 <u>\$ 76,382</u>	 <u>\$ (535,860)</u>

**10. CONTINGENCIES**

HWEA has legal actions and proceedings pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance.

HWEA is contingently liable for various claims and lawsuits arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to HWEA's financial position.

Under the terms of 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. HWEA management believes that disallowances, if any, will be immaterial.

**11. RISK MANAGEMENT**

HWEA is 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. HWEA carries 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.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**11. RISK MANAGEMENT, continued**

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, 2016 and 2015, the claims liability was \$93,042 and \$96,889, respectively. 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>
2014-2015	\$56,910	\$1,056,203	\$1,016,224	\$96,889
2015-2016	\$96,889	\$ 766,229	\$ 770,076	\$93,042

**12. CONSTRUCTION COMMITMENT**

At June 30, 2016, HWEA had several material construction projects underway:

<u>Project</u>	<u>Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Water Tank Rehab Project	\$ 63,798	\$ 1,873,006
US41A Improvements & Interconnect	1,671,004	20,000
Water Main Extension - Westside	232,686	1,680,976
FTC 20" Water Main Extension	457,422	3,675,207
Natural Gas Project - Phase 1	1,417,055	221,651
FTC 8" Natural Gas - Phase 2	1,009,460	10,656,847
Oak Grove Hwy 115/911 Project	-	5,371
Lovers Lane Water Main Relocation	-	14,638
Pennyrile Pkwy Extension - Clinic Drive	-	39,700
Phase 7 Priority 2 Rehab	4,309,426	11,500
Phase 7 Priority 3	<u>3,504</u>	<u>7,238,050</u>
Total	<u>\$ 9,164,355</u>	<u>\$ 25,436,946</u>

**13. RECLASSIFICATIONS**

Certain accounts in the June 30, 2015, financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2016, financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS**

**14. RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2015, the City of Hopkinsville issued three general obligation bonds on behalf of HWEA: Series 2014B, Series 2014C, and Series 2015A. Series 2014B was used to provide financing for Phase I of the natural gas project; Series 2014C was used to currently refund two Kentucky Rural Water Finance Corporation revenue bonds associated with the Oak Grove system; and Series 2015A was used to advance refund the 2005A revenue bonds pertaining to the Lake Barkley water project. Also during the year ended June 30, 2015, on behalf of HWEA, the City of Hopkinsville entered into two revenue lease agreements with a local bank to provide financing for water and natural gas construction projects at Fort Campbell.

See Note 6 for additional information on these transactions.

The City of Hopkinsville was awarded an Economic Development Initiative Special Projects Grant from the U.S. Department of Housing and Urban Development to help fund the natural gas project. For the year ended June 30, 2015, the City of Hopkinsville paid HWEA \$105,022 from this grant for reimbursement of legal fees relating to this project. No such reimbursement occurred for the year ended June 30, 2016.

**15. SUBSEQUENT EVENTS**

Subsequent to the year ended June 30, 2016, HWEA entered into a contract with Moore Construction Company, Inc. of Clarksville, Tennessee for approximately 5.6 miles of twenty-inch ductile iron water main along US Highway 41A. This project will serve the Fort Campbell Army Post with a redundant connection for domestic water supply and has an estimated contract cost of \$4,473,826. Financing for the project is to be provided by a local bank.

**Required Supplementary Information  
(other than Management's Discussion and Analysis)**



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION  
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)  
SCHEDULES OF HWEA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>
<b><u>Nonhazardous:</u></b>		
HWEA's proportion of the net pension liability (asset)	0.118190%	0.114295%
HWEA's proportionate share of the net pension liability (asset)	\$ 5,081,523	\$ 3,708,000
HWEA's covered payroll	\$ 3,131,198	\$ 2,766,612
HWEA's proportionate share of the net pension liability as a percentage of its covered payroll	162.29%	134.03%
Total pension plan's fiduciary net position	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$ 10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	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 7 in the notes to financial statements regarding detailed information on HWEA's pension plan. The County Employees Retirement System measurement date is twelve months prior to HWEA's financial statements; the 2016 measurement date is June 30, 2015, and the 2015 measurement date is June 30, 2014.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)  
SCHEDULES OF CONTRIBUTIONS  
FOR THE YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 525,846	\$ 487,244	\$ 495,315
Contributions in relation to the contractually required contributions	<u>525,846</u>	<u>487,244</u>	<u>495,315</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
Contributions as a percentage of covered payroll	16.79%	17.61%	18.89%

**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 7 in the notes to financial statements regarding detailed information on HWEA's pension plan.

## **Supporting Schedules**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF NET POSITION  
June 30, 2016**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>Hopkinsville</u>			<u>Pembroke</u>		<u>Crofton</u>		<u>Oak Grove</u>	<u>Eliminations</u>	<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Gas</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Sewer</u>		
<b>Current assets</b>										
Cash and cash equivalents										
Petty cash and change fund	\$ 750	\$ 750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500
Health claims fund	162,356	162,356	-	-	-	-	-	-	-	324,712
Employee reimbursement fund	11,997	-	-	-	-	-	-	-	-	11,997
Operation and maintenance fund	<u>2,306,334</u>	<u>2,150,206</u>	<u>-</u>	<u>27,559</u>	<u>27,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,511,658</u>
Total cash and cash equivalents	2,481,437	2,313,312	-	27,559	27,559	-	-	-	-	4,849,867
Customer receivables	550,398	336,209	-	9,923	10,096	17,847	8,639	130,455	-	1,063,567
Inventory	288,922	7,947	-	-	-	-	-	-	-	296,869
Prepaid insurance	16,898	16,898	-	-	-	-	-	-	-	33,796
Accrued interest on note receivable	<u>-</u>	<u>444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>444</u>
Total current assets	<u>3,337,655</u>	<u>2,674,810</u>	<u>-</u>	<u>37,482</u>	<u>37,655</u>	<u>17,847</u>	<u>8,639</u>	<u>130,455</u>	<u>-</u>	<u>6,244,543</u>
<b>Restricted assets</b>										
Bond and interest redemption fund										
Investments	205,711	-	-	-	-	-	-	-	-	205,711
Accrued interest	<u>768</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>768</u>
Subtotal	<u>206,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,479</u>
Construction fund										
Cash and cash equivalents	<u>1,918,173</u>	<u>32,013</u>	<u>1,194,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,144,985</u>
Subtotal	<u>1,918,173</u>	<u>32,013</u>	<u>1,194,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,144,985</u>
Unemployment fund										
Investments	12,972	12,972	-	-	-	-	-	-	-	25,944
Accrued interest	<u>54</u>	<u>54</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108</u>
Subtotal	<u>13,026</u>	<u>13,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,052</u>
Equipment maintenance and replacement fund										
Cash and cash equivalents	<u>991,330</u>	<u>991,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,982,660</u>
Subtotal	<u>991,330</u>	<u>991,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,982,660</u>
Total restricted assets	<u>3,129,008</u>	<u>1,036,369</u>	<u>1,194,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,360,176</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF NET POSITION (continued)  
June 30, 2016**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, (continued)**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
Property, plant and equipment										
Property and plant	\$ 82,070,266	\$ 73,914,397	\$ -	\$ 789,114	\$ 279,852	\$ 873,742	\$ 1,254,710	\$ 10,485,359	\$ -	\$ 169,667,440
General plant	1,257,203	2,137,053	-	-	-	-	-	-	-	3,394,256
Unclassified plant	2,533,469	2,199,213	2,699,269	-	-	-	-	-	-	7,431,951
	85,860,938	78,250,663	2,699,269	789,114	279,852	873,742	1,254,710	10,485,359	-	180,493,647
Less accumulated depreciation	30,538,830	38,342,334	-	237,338	186,802	274,326	844,519	1,861,602	-	72,285,751
Net property, plant and equipment	55,322,108	39,908,329	2,699,269	551,776	93,050	599,416	410,191	8,623,757	-	108,207,896
Notes receivable										
Receivable - CCBE	-	92,790	-	-	-	-	-	-	-	92,790
Receivable - Hopk Ind. Fdn.	-	177,674	-	-	-	-	-	-	-	177,674
Other receivables										
Receivable - US Army Corps of Engineers	596,483	-	1,018,836	-	-	-	-	-	-	1,615,319
Receivable - Crofton division	109,000	-	-	-	-	-	-	-	(109,000)	-
Total notes and other receivables	705,483	270,464	1,018,836	-	-	-	-	-	(109,000)	1,885,783
Deferred outflows of resources										
Pension	520,158	566,176	-	-	-	-	-	-	-	1,086,334
Deferred refunding costs	601,512	-	-	-	-	-	-	19,338	-	620,850
Total deferred outflows of resources	1,121,670	566,176	-	-	-	-	-	19,338	-	1,707,184
Total assets and deferred outflows of resources	\$ 63,615,924	\$ 44,456,148	\$ 4,912,904	\$ 589,258	\$ 130,705	\$ 617,263	\$ 418,830	\$ 8,773,550	\$ (109,000)	\$ 123,405,582

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF NET POSITION (continued)  
June 30, 2016**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
<b>Current liabilities</b>										
Current portion of long-term debt	\$ 1,172,196	\$ 937,706	\$ -	\$ -	\$ 13,428	\$ 16,665	\$ 16,665	\$ 426,520	\$ -	\$ 2,583,180
Payable to City of Hopkinsville, current porti	1,355,000	120,000	-	-	-	-	-	-	-	1,475,000
Customer deposits	94,818	-	-	-	-	-	-	-	-	94,818
Accrued interest	204,613	34,249	26,038	16	-	29	29	27,468	-	292,442
Construction retainage payable	5,000	18,562	206,930	-	-	-	-	-	-	230,492
Accounts payable	205,926	148,994	-	594	-	583	-	-	-	356,097
Accounts payable - restricted	280	-	-	-	-	-	-	-	-	280
Construction contracts payable	-	117,575	7,196	-	-	-	-	-	-	124,771
Accrued salaries	92,740	76,407	-	-	-	-	-	-	-	169,147
Accrued compensated absences	78,928	86,497	-	-	-	-	-	-	-	165,425
<b>Total current liabilities</b>	<b>3,209,501</b>	<b>1,539,990</b>	<b>240,164</b>	<b>610</b>	<b>13,428</b>	<b>17,277</b>	<b>16,694</b>	<b>453,988</b>	<b>-</b>	<b>5,491,652</b>
<b>Long-term debt</b>										
Revenue bonds payable, net of current porti	2,488,353	-	-	-	-	-	-	350,000	-	2,838,353
KIA loans payable, net of current portion	12,243,955	20,146,867	-	-	-	41,954	41,954	6,863,704	-	39,338,434
Revenue leases - Planters	590,113	-	1,006,015	-	-	-	-	-	-	1,596,128
Payable to City of Hopkinsville, net of curren	18,200,748	1,394,369	1,707,551	-	-	-	-	-	-	21,302,668
Net pension liability	2,433,132	2,648,391	-	-	-	-	-	-	-	5,081,523
Crofton division-note payable	-	-	-	-	-	109,000	-	-	(109,000)	-
Compensated absences, net of current porti	94,628	100,773	-	-	-	-	-	-	-	195,401
<b>Total long-term debt</b>	<b>36,050,929</b>	<b>24,290,400</b>	<b>2,713,566</b>	<b>-</b>	<b>-</b>	<b>150,954</b>	<b>41,954</b>	<b>7,213,704</b>	<b>(109,000)</b>	<b>70,352,507</b>
<b>Total liabilities</b>	<b>39,260,430</b>	<b>25,830,390</b>	<b>2,953,730</b>	<b>610</b>	<b>13,428</b>	<b>168,231</b>	<b>58,648</b>	<b>7,667,692</b>	<b>(109,000)</b>	<b>75,844,159</b>
<b>Deferred inflows of resources</b>										
Deferred revenue - USACE	596,483	-	1,018,836	-	-	-	-	-	-	1,615,319
Pension	118,916	129,436	-	-	-	-	-	-	-	248,352
<b>Total deferred inflows of resources</b>	<b>715,399</b>	<b>129,436</b>	<b>1,018,836</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,863,671</b>
<b>Net Position</b>										
Net investment in capital assets (deficit)	21,195,113	17,173,250	(41,790)	551,776	79,622	540,797	351,572	1,002,871	-	40,853,211
Restricted										
Debt reserves	1,197,809	1,023,343	-	-	-	-	-	-	-	2,221,152
Unrestricted (deficit)	1,247,173	299,729	982,128	36,872	37,655	(91,765)	8,610	102,987	-	2,623,389
<b>Total net position</b>	<b>23,640,095</b>	<b>18,496,322</b>	<b>940,338</b>	<b>588,648</b>	<b>117,277</b>	<b>449,032</b>	<b>360,182</b>	<b>1,105,858</b>	<b>-</b>	<b>45,697,752</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 63,615,924</b>	<b>\$ 44,456,148</b>	<b>\$ 4,912,904</b>	<b>\$ 589,258</b>	<b>\$ 130,705</b>	<b>\$ 617,263</b>	<b>\$ 418,830</b>	<b>\$ 8,773,550</b>	<b>\$ (109,000)</b>	<b>\$ 123,405,582</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
For the year ended June 30, 2016**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
Operating revenues	\$ 7,278,630	\$ 5,835,295	\$ -	\$ 117,016	\$ 121,227	\$ 196,086	\$ 105,960	\$ 1,428,066	\$ -	\$ 15,082,280
Operating expenses										
Water source of supply	324,451	-	-	-	-	-	-	-	-	324,451
Water purification	1,209,770	-	-	282	-	21,651	-	-	-	1,231,703
Water distribution	445,164	-	-	35,228	-	76,641	-	-	-	557,033
Sewerage plant	-	1,315,127	-	-	8,537	-	11,283	868,653	-	2,203,600
Sewerage mains and laterals	-	301,040	-	-	40,736	-	40,694	5,896	-	388,366
Administrative and general	2,242,760	2,052,811	-	1,467	1,734	779	237	-	-	4,299,788
Technical services	110,618	89,074	-	-	-	-	-	-	-	199,692
Depreciation	1,971,626	2,025,944	-	31,323	8,086	28,086	14,499	273,514	-	4,353,078
Total operating expenses	<u>6,304,389</u>	<u>5,783,996</u>	<u>-</u>	<u>68,300</u>	<u>59,093</u>	<u>127,157</u>	<u>66,713</u>	<u>1,148,063</u>	<u>-</u>	<u>13,557,711</u>
Operating income	<u>974,241</u>	<u>51,299</u>	<u>-</u>	<u>48,716</u>	<u>62,134</u>	<u>68,929</u>	<u>39,247</u>	<u>280,003</u>	<u>-</u>	<u>1,524,569</u>
Nonoperating revenues (expenses)										
Interest revenue	27,644	27,777	-	-	-	-	-	-	-	55,421
Gain (loss) on sale of fixed assets	(120,841)	(70,293)	-	-	-	-	-	(10,000)	-	(201,134)
Amortization of deferred refunding costs	(72,635)	-	-	-	-	-	-	(1,432)	-	(74,067)
Amortization of debt discounts and premiums	159,316	-	351	-	-	-	-	1,064	-	160,731
Interest expense	(964,170)	(354,989)	-	(343)	-	(456)	(456)	(68,724)	-	(1,389,138)
Total nonoperating revenues (expenses)	<u>(970,686)</u>	<u>(397,505)</u>	<u>351</u>	<u>(343)</u>	<u>-</u>	<u>(456)</u>	<u>(456)</u>	<u>(79,092)</u>	<u>-</u>	<u>(1,448,187)</u>
Income (loss) before contributions and transfers	3,555	(346,206)	351	48,373	62,134	68,473	38,791	200,911	-	76,382
Capital contributions										
Capital assets provided by developers	79,100	-	-	-	-	-	-	-	-	79,100
Grant income	257,550	-	-	-	-	-	-	-	-	257,550
Transfers (to) from										
Operating transfers in (out)	<u>2,347,902</u>	<u>1,688,965</u>	<u>167,403</u>	<u>(281,450)</u>	<u>(246,042)</u>	<u>(462,660)</u>	<u>(552,093)</u>	<u>(2,662,025)</u>	<u>-</u>	<u>-</u>
Change in net position	2,688,107	1,342,759	167,754	(233,077)	(183,908)	(394,187)	(513,302)	(2,461,114)	-	413,032
Net position - beginning of year	<u>20,951,988</u>	<u>17,153,563</u>	<u>772,584</u>	<u>821,725</u>	<u>301,185</u>	<u>843,219</u>	<u>873,484</u>	<u>3,566,972</u>	<u>-</u>	<u>45,284,720</u>
Net position - end of year	<u>\$ 23,640,095</u>	<u>\$ 18,496,322</u>	<u>\$ 940,338</u>	<u>\$ 588,648</u>	<u>\$ 117,277</u>	<u>\$ 449,032</u>	<u>\$ 360,182</u>	<u>\$ 1,105,858</u>	<u>\$ -</u>	<u>\$ 45,697,752</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT  
For the year ended June 30, 2016**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2016	
	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Balance June 30, 2015	Additions	Retirements		Balance June 30, 2016
<b>WATER:</b>									
Land	\$ 1,230,391	\$ -	\$ -	\$ 1,230,391	\$ -	\$ -	\$ -	\$ -	\$ 1,230,391
Structures	2,933,410	225,633	14,206	3,144,837	1,689,527	56,275	6,064	1,739,738	1,405,099
Elevated tanks	3,698,757	-	13,919	3,684,838	2,253,614	113,521	7,737	2,359,398	1,325,440
Transmission mains	196,596	-	-	196,596	196,596	-	-	196,596	-
Distribution mains	16,182,585	135,466	-	16,318,051	8,001,771	280,949	-	8,282,720	8,035,331
Services	2,973,376	62,684	-	3,036,060	1,501,977	60,633	-	1,562,610	1,473,450
Meters and installation	2,886,977	61,944	59,307	2,889,614	2,369,372	80,035	21,499	2,427,908	461,706
Hydrants	960,122	19,397	-	979,519	516,724	16,076	-	532,800	446,719
Purification structures	18,262,628	-	525,234	17,737,394	4,844,293	709,438	524,070	5,029,661	12,707,733
Purification equipment	4,621,025	19,908	4,051	4,636,882	4,230,705	162,156	3,038	4,389,823	247,059
Cast iron pipe lines	44,436	-	44,436	-	44,436	-	44,436	-	-
Electric pumping equipment	427,334	-	-	427,334	362,159	14,494	-	376,653	50,681
Auxiliary power units	128,790	-	128,790	-	128,790	-	128,790	-	-
Quarry - raw water supply	29,508,836	19,810	77,040	29,451,606	3,140,054	430,072	15,127	3,554,999	25,896,607
<b>Total water plant</b>	<b>84,055,263</b>	<b>544,842</b>	<b>866,983</b>	<b>83,733,122</b>	<b>29,280,018</b>	<b>1,923,649</b>	<b>750,761</b>	<b>30,452,906</b>	<b>53,280,216</b>
<b>General</b>									
Transportation equipment	387,059	120,768	-	507,827	108,015	45,269	-	153,284	354,543
Tractors & backhoes	159,363	7,900	-	167,263	40,126	16,748	-	56,874	110,389
General equipment	376,059	5,186	23,019	358,226	271,040	15,646	19,357	267,329	90,897
Office furniture and fixtures	65,903	16,450	8,612	73,741	33,961	6,737	8,349	32,349	41,392
Two-way radio equipment	3,393	3,370	3,393	3,370	3,106	376	3,202	280	3,090
Computer equipment	220,926	20,532	94,682	146,776	159,044	22,608	94,180	87,472	59,304
<b>Total general plant</b>	<b>1,212,703</b>	<b>174,206</b>	<b>129,706</b>	<b>1,257,203</b>	<b>615,292</b>	<b>107,384</b>	<b>125,088</b>	<b>597,588</b>	<b>659,615</b>
<b>Unclassified plant</b>									
Construction in progress	759,278	2,290,385	516,194	2,533,469	-	-	-	-	2,533,469
<b>Total water plant</b>	<b>\$ 86,027,244</b>	<b>\$ 3,009,433</b>	<b>\$ 1,512,883</b>	<b>\$ 87,523,794</b>	<b>\$ 29,895,310</b>	<b>\$ 2,031,033</b>	<b>\$ 875,849</b>	<b>\$ 31,050,494</b>	<b>\$ 56,473,300</b>



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT (continued)  
For the year ended June 30, 2016**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2016	
	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016	Balance June 30, 2015	Additions	Retirements		Balance June 30, 2016
<b>SEWERAGE:</b>									
Land	\$ 341,449	\$ -	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	3,770,122	230,374	39,474	3,961,022	1,323,243	125,140	14,850	1,433,533	2,527,489
Wastewater treatment plants									
Northside	8,338,082	90,514	7,053	8,421,543	6,751,564	214,766	5,185	6,961,145	1,460,398
Hammond-Wood	11,823,931	-	83,587	11,740,344	8,605,335	314,396	39,912	8,879,819	2,860,525
Machinery and equipment	2,635,223	23,213	4,555	2,653,881	2,354,096	113,136	3,929	2,463,303	190,578
Pumping stations	13,608,662	2,251,646	30,463	15,829,845	2,859,253	553,306	20,715	3,391,844	12,438,001
Mains and laterals	40,821,046	2,309,690	144,502	42,986,234	16,359,102	813,793	144,502	17,028,393	25,957,841
<b>Total sewerage plant</b>	<b>81,338,515</b>	<b>4,905,437</b>	<b>309,634</b>	<b>85,934,318</b>	<b>38,252,593</b>	<b>2,134,537</b>	<b>229,093</b>	<b>40,158,037</b>	<b>45,776,281</b>
<b>General</b>									
Transportation equipment	710,884	150,289	57,645	803,528	248,713	71,879	57,645	262,947	540,581
Tractors & backhoes	156,065	-	-	156,065	39,549	15,816	-	55,365	100,700
General equipment	817,047	193,304	23,289	987,062	596,690	72,560	14,636	654,614	332,448
Office furniture and fixtures	74,226	12,960	8,967	78,219	40,641	7,893	8,536	39,998	38,221
Two-way radio equipment	3,393	3,371	3,393	3,371	3,106	377	3,202	281	3,090
Computer equipment	185,219	14,805	91,216	108,808	136,247	18,984	91,216	64,015	44,793
<b>Total general plant</b>	<b>1,946,834</b>	<b>374,729</b>	<b>184,510</b>	<b>2,137,053</b>	<b>1,064,946</b>	<b>187,509</b>	<b>175,235</b>	<b>1,077,220</b>	<b>1,059,833</b>
<b>Unclassified plant</b>									
Construction in progress	5,385,599	1,855,976	5,042,362	2,199,213	-	-	-	-	2,199,213
<b>Total sewer plant</b>	<b>\$ 88,670,948</b>	<b>\$ 7,136,142</b>	<b>\$ 5,536,506</b>	<b>\$ 90,270,584</b>	<b>\$ 39,317,539</b>	<b>\$ 2,322,046</b>	<b>\$ 404,328</b>	<b>\$ 41,235,257</b>	<b>\$ 49,035,327</b>
<b>NATURAL GAS:</b>									
<b>Unclassified</b>									
Construction in progress	\$ 1,089,912	\$ 1,609,357	\$ -	\$ 2,699,269	\$ -	\$ -	\$ -	\$ -	\$ 2,699,269
<b>Total natural gas</b>	<b>\$ 1,089,912</b>	<b>\$ 1,609,357</b>	<b>\$ -</b>	<b>\$ 2,699,269</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,699,269</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER, SEWER, AND GAS DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF SINKING FUND REQUIREMENTS  
 June 30, 2016**

<b>Bonds Due Fiscal Year</b>	<b>1998</b>	<b>2005B</b>	<b>2010B</b>	<b>2013B</b>	<b>2014B</b>	<b>2014C</b>	<b>2015A</b>	<b>Total Debt Service</b>
2017	\$ 95,750	\$ 163,000	\$ 261,738	\$ 253,112	\$ 52,868	\$ 156,330	\$ 1,784,800	\$ 2,767,598
2018	97,150	-	261,626	254,662	52,868	150,010	1,785,000	2,601,316
2019	98,230	-	262,453	255,387	117,381	153,745	1,788,100	2,675,296
2020	99,065	-	263,776	251,037	116,406	152,425	1,789,000	2,671,709
2021	99,655	-	262,884	251,612	115,106	155,025	1,787,700	2,671,982
2022	-	-	262,929	252,037	118,419	152,525	1,789,100	2,575,010
2023	-	-	262,659	252,112	116,494	153,775	1,788,100	2,573,140
2024	-	-	260,574	251,831	114,394	149,875	1,784,700	2,561,374
2025	-	-	258,737	251,175	117,219	145,975	1,788,700	2,561,806
2026	-	-	259,127	255,050	114,969	107,075	1,785,000	2,521,221
2027	-	-	261,139	253,477	117,644	89,225	-	721,485
2028	-	-	261,540	251,540	115,244	111,825	-	740,149
2029	-	-	261,280	254,025	117,716	108,413	-	741,434
2030	-	-	130,500	255,825	115,060	-	-	501,385
2031	-	-	-	251,787	117,325	-	-	369,112
2032	-	-	-	251,887	119,256	-	-	371,143
2033	-	-	-	251,537	115,931	-	-	367,468
2034	-	-	-	255,631	117,518	-	-	373,149
2035	-	-	-	-	118,865	-	-	118,865
2036	-	-	-	-	115,059	-	-	115,059
2037	-	-	-	-	116,162	-	-	116,162
2038	-	-	-	-	117,088	-	-	117,088
	<u>\$ 489,850</u>	<u>\$ 163,000</u>	<u>\$ 3,530,962</u>	<u>\$ 4,553,724</u>	<u>\$ 2,438,992</u>	<u>\$ 1,786,223</u>	<u>\$ 17,870,200</u>	<u>\$ 30,832,951</u>

The sinking fund reserve requirement is the maximum total debt service on bonds due in future years. Therefore, the sinking fund reserve requirement as of June 30, 2016, is \$2,767,598. The HWEA is setting aside funds to meet this requirement.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULES OF OPERATING EXPENSES  
For the years ended June 30, 2016 and 2015**

	<u>2016</u>		<u>2015</u>	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Water Source of Supply</b>				
Supplies	\$ 4,167	0.03%	\$ 1,817	0.01%
Utilities	311,028	2.10%	343,937	2.32%
Grounds and maintenance	9,256	0.06%	4,044	0.03%
Total water source of supply	<u>324,451</u>	<u>2.19%</u>	<u>349,798</u>	<u>2.36%</u>
<b>Water Purification</b>				
Labor	483,531	3.27%	388,953	2.63%
Chemicals	235,206	1.59%	264,532	1.79%
Maintenance to structures	4,269	0.03%	6,835	0.05%
Maintenance to equipment	47,940	0.32%	17,771	0.12%
Supplies	17,349	0.12%	19,535	0.13%
Maintenance to reservoirs and tanks	8,152	0.06%	13,572	0.09%
Utilities	318,115	2.15%	326,820	2.21%
Training and education	3,284	0.02%	1,433	0.01%
Laboratory work	26,710	0.18%	18,842	0.13%
Laboratory supplies and expense	42,975	0.29%	20,960	0.14%
Emergency generators	-	0.00%	8,778	0.06%
Grounds and maintenance	8,360	0.06%	9,352	0.06%
Professional services	3,981	0.03%	5,211	0.04%
Transportation expense	30,794	0.21%	30,702	0.21%
Small tools	1,037	0.01%	-	0.00%
Total water purification	<u>1,231,703</u>	<u>8.32%</u>	<u>1,133,296</u>	<u>7.66%</u>
<b>Water Distribution</b>				
Labor	368,228	2.49%	340,882	2.30%
Supplies	144,045	0.97%	114,535	0.77%
Repairs to distribution mains	14,522	0.10%	37,595	0.25%
Repairs to fire hydrants	158	0.00%	579	0.00%
Repairs to equipment	789	0.01%	313	0.00%
Transportation expense	20,423	0.14%	28,883	0.20%
Grounds and maintenance	3,293	0.02%	3,316	0.02%
Utilities	2,304	0.02%	3,027	0.02%
Training, education and licenses	822	0.01%	1,456	0.01%
Small tools	2,449	0.02%	4,804	0.03%
Total water distribution	<u>557,033</u>	<u>3.76%</u>	<u>535,390</u>	<u>3.62%</u>
Subtotal carried forward	<u>\$ 2,113,187</u>	<u>14.28%</u>	<u>\$ 2,018,484</u>	<u>13.64%</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**  
**WATER, SEWER, AND GAS DEPARTMENTS**  
**A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**  
**SCHEDULES OF OPERATING EXPENSES (continued)**  
**For the years ended June 30, 2016 and 2015**

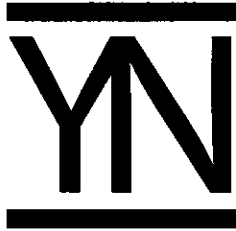
	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	\$ 2,113,187	14.28%	\$ 2,018,484	13.64%
<b>Water Technical Services</b>				
Labor	102,055	0.69%	74,855	0.51%
Supplies	5,158	0.03%	10,004	0.07%
Training, education and licenses	30	0.00%	491	0.00%
Transportation expense	3,375	0.02%	4,642	0.03%
Total water technical services	<u>110,618</u>	<u>0.75%</u>	<u>89,992</u>	<u>0.61%</u>
<b>Water Administrative and General</b>				
Office salaries	292,909	1.98%	260,234	1.76%
Customer service salaries	233,594	1.58%	207,797	1.40%
Employee benefits	1,062,766	7.18%	744,238	5.03%
Office supplies	87,765	0.59%	63,503	0.43%
Postage	16,659	0.11%	16,933	0.11%
Telephone	25,909	0.18%	22,436	0.15%
Insurance and bonds	146,136	0.99%	150,512	1.02%
Professional services	216,284	1.46%	34,424	0.23%
Safety program and drug screening	15,307	0.10%	13,051	0.09%
Office building maintenance	10,838	0.07%	10,020	0.07%
Bad debts, net	45,786	0.31%	111,201	0.75%
Training, education and licenses	12,996	0.09%	7,953	0.05%
Transportation expense	8,011	0.05%	12,882	0.09%
REZ and CCWD rebate payments	773	0.01%	4,857	0.03%
Utilities	21,804	0.15%	23,352	0.16%
Meetings and events	6,580	0.04%	4,991	0.03%
Advertising, donations, and memberships	36,011	0.24%	44,650	0.30%
Miscellaneous	4,878	0.03%	3,831	0.03%
Total water administrative and general	<u>2,245,006</u>	<u>15.17%</u>	<u>1,736,865</u>	<u>11.73%</u>
Total water operating expense other than depreciation	<u>\$ 4,468,811</u>	<u>30.19%</u>	<u>\$ 3,845,341</u>	<u>25.98%</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULES OF OPERATING EXPENSES (continued)  
For the years ended June 30, 2016 and 2015**

	<u>2016</u>		<u>2015</u>	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Wastewater Treatment Plant</b>				
Labor	\$ 649,589	4.39%	\$ 611,547	4.13%
Chemicals and materials	138,235	0.93%	74,658	0.50%
Supplies and tools	41,392	0.28%	25,709	0.17%
Lights, power, water, and fuel oil	571,132	3.86%	572,856	3.87%
Transportation expense	24,456	0.17%	24,585	0.17%
Repairs - machinery and equipment	119,476	0.81%	96,370	0.65%
Grounds and maintenance	7,290	0.05%	10,799	0.07%
Maintenance of pump stations	109,610	0.74%	97,360	0.66%
Laboratory work	23,647	0.16%	24,353	0.16%
Laboratory supplies and expense	19,886	0.13%	23,072	0.16%
Sludge disposal	437,573	2.96%	331,157	2.24%
Training, education and licenses	2,302	0.02%	7,873	0.05%
Professional services	34,998	0.24%	20,358	0.14%
Billing and collection expense	24,014	0.16%	23,591	0.16%
	<u>2,203,600</u>	<u>14.89%</u>	<u>1,944,288</u>	<u>13.13%</u>
<b>Wastewater Mains and Laterals</b>				
Labor	224,700	1.52%	231,490	1.56%
Supplies and tools	92,750	0.63%	77,516	0.52%
Repairs - mains and laterals	10,122	0.07%	23,086	0.16%
Repairs - truck and sewerage equipment	4,015	0.03%	4,730	0.03%
Transportation expense	20,403	0.14%	29,091	0.20%
Utilities	2,304	0.02%	3,027	0.02%
Grounds and maintenance	3,293	0.02%	3,316	0.02%
Training, education and licenses	532	0.00%	1,503	0.01%
Professional services	4,870	0.03%	-	0.00%
Developer rebates	25,377	0.17%	39,214	0.26%
	<u>388,366</u>	<u>2.62%</u>	<u>412,973</u>	<u>2.79%</u>
<b>Wastewater Technical Services</b>				
Labor	80,501	0.54%	76,147	0.51%
Supplies	5,167	0.03%	9,207	0.06%
Training, education and licenses	30	0.00%	953	0.01%
Transportation expense	3,376	0.02%	4,642	0.03%
	<u>89,074</u>	<u>0.60%</u>	<u>90,949</u>	<u>0.61%</u>
Subtotal carried forward	<u>\$ 2,681,040</u>	<u>18.11%</u>	<u>\$ 2,448,210</u>	<u>16.54%</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULES OF OPERATING EXPENSES (continued)  
For the years ended June 30, 2016 and 2015**

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	\$ 2,681,040	18.11%	\$ 2,448,210	16.54%
<b>Sewerage Administrative and General</b>				
Office salaries	294,887	1.99%	259,734	1.75%
Customer service salaries	233,213	1.58%	206,401	1.39%
Employee benefits	1,070,912	7.23%	725,988	4.90%
Office supplies	87,927	0.59%	63,334	0.43%
Postage	16,649	0.11%	16,933	0.11%
Telephone	25,909	0.18%	22,436	0.15%
Insurance and bonds	146,136	0.99%	150,512	1.02%
Professional services	30,504	0.21%	32,649	0.22%
Office building maintenance	10,839	0.07%	10,020	0.07%
Bad debts, net	32,051	0.22%	118,945	0.80%
Training, education and licenses	11,697	0.08%	3,696	0.02%
Safety program and drug screening	16,104	0.11%	13,235	0.09%
Transportation expense	8,012	0.05%	12,883	0.09%
Rez rebate payments	-	0.00%	4,375	0.03%
Utilities	23,802	0.16%	25,331	0.17%
Meetings and events	6,619	0.04%	4,991	0.03%
Advertising, donations, and memberships	36,101	0.24%	44,800	0.30%
Miscellaneous	3,420	0.02%	2,779	0.02%
Total sewer administrative and general	<u>2,054,782</u>	<u>13.88%</u>	<u>1,719,042</u>	<u>11.61%</u>
Total sewerage operating expense other than depreciation	<u>\$4,735,822</u>	<u>31.99%</u>	<u>\$4,167,252</u>	<u>28.15%</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 Members of the  
City of Hopkinsville Sewerage and  
Water Works Commission d/b/a  
Hopkinsville Water Environment Authority  
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 business-type activities of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated January 25, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered HWEA'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 HWEA's internal control. Accordingly, we do not express an opinion on the effectiveness of HWEA'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 a 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 HWEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*York, Neel + Associates, LLP*

Hopkinsville, Kentucky  
January 25, 2017