

**HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY**

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

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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

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

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**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2017**

**COMMISSIONERS**

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

**ATTORNEY**

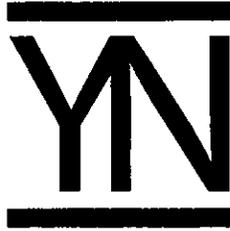
**Dan Kemp**

**PRESIDENT AND CEO**

**Derrick W. Watson**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
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**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, 2017 and 2016, 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, 2017 and 2016, 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 November 27, 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  
November 27, 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, 2017 and 2016. 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, 2017, HWEA's total assets and deferred outflows of resources increased \$8.1 million, while total liabilities and deferred inflows of resources increased \$6.6 million, resulting in total net position increasing approximately \$1.5 million over the course of the year's operations.
- ❑ Long-term debt for the year ended June 30, 2017, 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 \$6,361,838 and \$5,081,523 at June 30, 2017 and 2016, 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 3.66% during the year ended June 30, 2017, while operating expenses decreased 4.15%. The 9.5% water rate increase that HWEA implemented in January 2016 has now been in effect for an entire operating year, which helps explain the increase in operating revenues. The largest decrease in total operating expenses comes from administrative and general expense (specifically employee benefits), which pertains to recording HWEA's share of the net pension liability.
- ❑ The most significant change in nonoperating revenues and expenses comes from the loss recorded on the sale of fixed assets. These amounts will fluctuate depending on the volume of disposals in any given year. For both the years ended June 30, 2017 and 2016, an overall loss was recorded on the sale of fixed assets, which is a result of disposing various assets that were not fully depreciated at the time of disposal.
- ❑ Interest expense on outstanding debt increased \$73,423 during the year ended June 30, 2017, which is the net effect of introducing and then paying down long-term debt.
- ❑ HWEA received no grant income during the year ended June 30, 2017. During the year ended June 30, 2016, HWEA received grants totaling \$257,550 from the Kentucky Infrastructure Authority to help fund certain construction projects.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
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**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, 2017 and 2016, 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 2017?” 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 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$17,435	\$13,491	\$ 3,944	29.23 %
Capital Assets	111,396	108,208	3,188	2.95 %
Deferred Outflows of Resources	<u>2,650</u>	<u>1,707</u>	<u>943</u>	<u>55.24 %</u>
Total Assets and Deferred Outflows of Resources	<u>131,481</u>	<u>123,406</u>	<u>8,075</u>	<u>6.54 %</u>
Long-term Debt Outstanding	77,490	74,576	2,914	3.91 %
Other Liabilities	1,033	1,268	(235)	(18.53)%
Deferred Inflows of Resources	<u>5,774</u>	<u>1,864</u>	<u>3,910</u>	<u>209.76 %</u>
Total Liabilities and Deferred Inflows of Resources	<u>84,297</u>	<u>77,708</u>	<u>6,589</u>	<u>8.48 %</u>
Net Investment in				
Capital Assets	40,905	40,853	52	0.13 %
Restricted	2,000	2,221	(221)	(9.95)%
Unrestricted	<u>4,279</u>	<u>2,624</u>	<u>1,655</u>	<u>63.07 %</u>
Total Net Position	<u>\$47,184</u>	<u>\$45,698</u>	<u>\$ 1,486</u>	<u>3.25 %</u>

As can be seen from the table above, net position increased \$1.5 million during the year ended June 30, 2017, 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. Draws on various loans from KIA toward construction projects, along with draws from two lines of credit at a local bank to fund certain water and gas 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, 2017, as well as fewer days in the accrual for salaries and wages at June 30, 2017, compared to 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 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	\$ 15,634	\$ 15,082	\$ 552	3.66 %
Nonoperating Revenues	223	216	7	3.24 %
Total Revenues	<u>15,857</u>	<u>15,298</u>	<u>559</u>	<u>3.65 %</u>
Depreciation Expense	4,388	4,353	35	0.80 %
Other Operating Expenses	8,607	9,205	(598)	(6.50)%
Interest Expense	1,463	1,389	74	5.33 %
Other Nonoperating Expenses	97	275	(178)	(64.73)%
Total Expenses	<u>14,555</u>	<u>15,222</u>	<u>(667)</u>	<u>(4.38)%</u>
Income/(Loss) before Contributions and Transfers	1,302	76	1,226	1,613.16 %
Capital Contributions	184	337	(153)	(45.40)%
Change in Net Position	<u>1,486</u>	<u>413</u>	<u>1,073</u>	<u>259.81 %</u>
Beginning Net Position	45,698	45,285	413	0.91 %
Ending Net Position	<u>\$ 47,184</u>	<u>\$ 45,698</u>	<u>\$ 1,486</u>	<u>3.25 %</u>

As can be seen from the table above, operating revenues increased \$552 thousand, which is a result of the 9.5% water rate increase that was implemented in January 2016 having now been in effect for one full operating year. The main reason for the \$598 thousand decrease in other operating expenses is from decreases in general and administrative expenses pertaining to employee benefits as a result of the requirements of GASBS No. 68.

**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 2017  
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$ 15,296	\$ 15,634	\$ 338
Nonoperating revenues	59	223	164
Operating expenses and depreciation	(13,439)	(12,995)	444
Nonoperating expenses	<u>(1,682)</u>	<u>(1,560)</u>	<u>122</u>
Income (loss) before contributions and transfers	<u>\$ 234</u>	<u>\$ 1,302</u>	<u>\$ 1,068</u>

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**CAPITAL ASSETS**

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At June 30, 2017, HWEA had \$188 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2017 and 2016, 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, 2017, consisted primarily of work done on various water projects including the installation of a 20" water main extension at Ft. Campbell. Work being done on the installation of natural gas lines and various sewer related projects are also included in the balance. Several projects were completed during the year ended June 30, 2017, and placed into service, with the largest projects being the Phase 7 sewer rehabilitation projects and the US 41A water line improvement project. 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 2017	FY 2016	Dollar Change	Percent Change
Water	\$ 93,436,044	\$ 87,492,692	\$ 5,943,352	6.79 %
Sewerage	91,239,882	90,301,686	938,196	1.04 %
Gas	3,324,819	2,699,269	625,550	23.17 %
	188,000,745	180,493,647	7,507,098	4.16 %
Less: Accumulated Depreciation	(76,604,261)	(72,285,751)	(4,318,510)	(5.97)%
Net Property, Plant and Equipment	<u>\$111,396,484</u>	<u>\$108,207,896</u>	<u>\$ 3,188,588</u>	<u>2.95 %</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 water and sewer rate increases were approved and became effective over the past several years. The latest water rate increase became effective January 1, 2016, and the latest sewer rate increase became effective July 1, 2014. 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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HWEA is also currently in the design stage of a \$39.3 million renovation and expansion of the Hammond Wood Waste Water Treatment Plant.

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

Subsequent to the year ended June 30, 2017, HWEA finalized and placed into service construction of approximately 5.6 miles of 20" ductile iron water main to serve the Fort Campbell Army Post with a redundant connection for domestic water. At that time, the revenue lease that the City of Hopkinsville had entered into on behalf of HWEA was closed, and a ten-year repayment schedule was established. HWEA began making principal and interest payments on this revenue lease in October 2017 from payments received from USACE, as established in the agreement between HWEA and USACE.

Subsequent to the year ended June 30, 2017, HWEA entered into a contract with Mechanical Consultants for the Water Treatment Plant HVAC Renovation Project. This project has an estimated contract cost of \$117,320.

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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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 8,349,546	\$ 4,849,867
Customer receivables	1,002,380	1,063,567
Inventory	240,539	296,869
Prepaid insurance	7,738	33,796
Accrued interest on note receivable	404	444
	<u>9,600,607</u>	<u>6,244,543</u>
<b>Restricted assets:</b>		
Cash and cash equivalents	2,001,799	5,127,645
Investments	-	232,531
	<u>2,001,799</u>	<u>5,360,176</u>
<b>Property, plant and equipment:</b>		
Property, plant and equipment	178,132,484	173,061,696
Unclassified plant - construction in progress, engineering fees, and other costs	9,868,261	7,431,951
Accumulated depreciation	(76,604,261)	(72,285,751)
	<u>111,396,484</u>	<u>108,207,896</u>
<b>Notes receivable</b>	<u>223,933</u>	<u>270,464</u>
<b>Other receivables</b>	<u>5,608,881</u>	<u>1,615,319</u>
<b>Deferred outflows of resources:</b>		
Pension	2,093,995	1,086,334
Deferred refunding costs	556,100	620,850
	<u>2,650,095</u>	<u>1,707,184</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 131,481,799</u>	<u>\$ 123,405,582</u>

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 5,464,534	\$ 2,583,180
Payable to City of Hopkinsville, current portion	1,525,000	1,475,000
Customer deposits	97,603	94,818
Accrued interest	350,914	292,442
Construction retainage payable	328,675	230,492
Accounts payable	226,498	356,097
Accounts payable - restricted	-	280
Construction contracts payable	-	124,771
Accrued salaries	29,782	169,147
Accrued compensated absences	174,037	165,425
	<u>8,197,043</u>	<u>5,491,652</u>
<b>Long-term debt:</b>		
Revenue bonds payable, net of current portion	2,601,369	2,838,353
KIA loans payable, net of current portion	38,585,354	39,338,434
Revenue leases - Planters, net of current portion	2,928,284	1,596,128
Payable to City of Hopkinsville, net of current portion	19,614,798	21,302,668
Net pension liability	6,361,838	5,081,523
Compensated absences, net of current portion	234,911	195,401
	<u>70,326,554</u>	<u>70,352,507</u>
Total long-term debt	<u>70,326,554</u>	<u>70,352,507</u>
Total liabilities	<u>78,523,597</u>	<u>75,844,159</u>
<b>Deferred inflows of resources:</b>		
Deferred revenue - USACE	5,608,881	1,615,319
Pension	165,568	248,352
	<u>5,774,449</u>	<u>1,863,671</u>
Total deferred inflows of resources	<u>5,774,449</u>	<u>1,863,671</u>
<b>Net position:</b>		
Net investment in capital assets	40,904,570	40,853,211
Restricted:		
Debt reserves	2,000,308	2,221,152
Unrestricted	4,278,875	2,623,389
	<u>47,183,753</u>	<u>45,697,752</u>
Total net position	<u>47,183,753</u>	<u>45,697,752</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 131,481,799</u>	<u>\$ 123,405,582</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating revenues:</b>		
Charges for services (net of allowances of \$75,364 and \$110,626 for 2017 and 2016, respectively)	\$ 15,359,787	\$ 14,951,318
Other operating revenue	<u>274,676</u>	<u>130,962</u>
Total operating revenues	<u>15,634,463</u>	<u>15,082,280</u>
<b>Operating expenses:</b>		
Water source of supply	328,233	324,451
Water purification	1,157,789	1,231,703
Water distribution	555,540	557,033
Sewerage plant	2,250,441	2,203,600
Sewerage mains and laterals	413,260	388,366
Administrative and general	3,717,136	4,299,788
Technical services	185,079	199,692
Depreciation	<u>4,387,789</u>	<u>4,353,078</u>
Total operating expenses	<u>12,995,267</u>	<u>13,557,711</u>
Operating income	<u>2,639,196</u>	<u>1,524,569</u>
<b>Nonoperating revenues (expenses):</b>		
Interest revenue	60,397	55,421
Gain (loss) on sale of fixed assets	(33,044)	(201,134)
Amortization of deferred refunding costs	(64,749)	(74,067)
Amortization of debt discounts and premiums	162,353	160,731
Interest expense	<u>(1,462,561)</u>	<u>(1,389,138)</u>
Total nonoperating revenues (expenses)	<u>(1,337,604)</u>	<u>(1,448,187)</u>
Income (loss) before contributions and transfers	1,301,592	76,382
<b>Capital contributions:</b>		
Capital assets contributed by developers	184,409	79,100
Grant income	<u>-</u>	<u>257,550</u>
Change in net position	1,486,001	413,032
<b>Net position - beginning of year</b>	<u>45,697,752</u>	<u>45,284,720</u>
<b>Net position - end of year</b>	<u>\$ 47,183,753</u>	<u>\$ 45,697,752</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 15,423,759	\$ 14,866,767
Paid to suppliers for goods and services	(3,931,141)	(4,540,559)
Paid to employees for services - including benefits	(4,625,201)	(4,476,470)
Other operating revenue	<u>274,676</u>	<u>130,962</u>
Net cash provided (used) by operating activities	<u>7,142,093</u>	<u>5,980,700</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(7,247,286)	(7,143,021)
Proceeds from disposition of fixed assets	28,217	9,522
Proceeds of capital debt	6,008,972	4,023,655
Principal paid on capital debt	(4,261,043)	(3,754,611)
Interest paid on capital debt	<u>(1,404,088)</u>	<u>(1,384,716)</u>
Net cash provided (used) by capital and related financing activities	<u>(6,875,228)</u>	<u>(8,249,171)</u>
<b>Cash flows from investing activities</b>		
Collection of note receivable	46,531	47,901
Interest earned on investments and reinvested	<u>60,437</u>	<u>54,301</u>
Net cash provided (used) by investing activities	<u>106,968</u>	<u>102,202</u>
Net increase (decrease) in cash and cash equivalents	373,833	(2,166,269)
Cash and cash equivalents at beginning of year (includes restricted assets of \$5,127,645 and \$6,852,672 for 2017 and 2016, respectively)	<u>9,977,512</u>	<u>12,143,781</u>
Cash and cash equivalents at end of year (includes restricted assets of \$2,001,799 and \$5,127,645 for 2017 and 2016, respectively)	<u>\$ 10,351,345</u>	<u>\$ 9,977,512</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
<b>Cash flows from operating activities</b>		
Operating income	\$ 2,639,196	\$ 1,524,569
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,387,789	4,353,078
Pension expense (GASBS No. 68)	189,870	608,785
Changes in assets and liabilities		
(Increase)/decrease in customer receivables	61,187	(90,191)
(Increase)/decrease in inventory	56,330	15,957
(Increase)/decrease in prepaid expenses	26,058	(7,346)
Increase/(decrease) in accounts payable	(129,879)	(441,422)
Increase/(decrease) in customer deposits	2,785	5,640
Increase/(decrease) in accrued salaries and compensated absences	<u>(91,243)</u>	<u>11,630</u>
Net cash provided (used) by operating activities	<u>\$ 7,142,093</u>	<u>\$ 5,980,700</u>
<b><u>Noncash Capital and Related Financing and Investing Items</u></b>		
Capitalized interest	\$ 339,377	\$ 404,066
Capital assets contributed by developers	184,409	79,100

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.

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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.

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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>2017</u>	<u>2016</u>
Bond and interest redemption fund	\$ -	\$ 206,479
Construction fund	1,491	3,144,985
Equipment maintenance and replacement fund	2,000,308	1,982,660
Unemployment fund	<u>-</u>	<u>26,052</u>
Total restricted assets	<u>\$ 2,001,799</u>	<u>\$ 5,360,176</u>

For the years ended June 30, 2017 and 2016, the equipment maintenance and replacement fund includes \$2,000,308 and \$1,982,660, respectively, to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority. For the years ended June 30, 2017 and 2016, the construction fund includes \$1,491 and \$3,112,972, 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.

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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.

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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.

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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, 2017 and 2016, none of HWEA's deposited funds were exposed to custodial credit risk.

b. Investments

<u>Investments as of June 30, 2017:</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Planters Bank CD	n/a	\$ -	\$ -
Planters Bank CD	n/a	-	-
Total		<u>\$ -</u>	<u>\$ -</u>
 <u>Investments as of June 30, 2016:</u>			
Planters Bank CD	n/a	\$ 206,479	\$ 206,479
Planters Bank CD	n/a	26,052	26,052
Total		<u>\$ 232,531</u>	<u>\$ 232,531</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, 2017 and 2016, none of HWEA's investments were exposed to custodial credit risk.

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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>2017</u>	<u>2016</u>
Customer accounts receivable	\$ 989,842	\$1,039,419
Allowance for uncollectible	-	-
Miscellaneous receivables	<u>12,538</u>	<u>24,148</u>
Total receivables	<u>\$1,002,380</u>	<u>\$1,063,567</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.

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NOTES TO FINANCIAL STATEMENTS**

**3. RECEIVABLES, continued**

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

	<u>2017</u>	<u>2016</u>
Accounts charged off in current period	\$127,282	\$115,259
Recovery of accounts previously charged off	<u>(39,687)</u>	<u>(37,422)</u>
Net bad debts	<u>\$ 87,595</u>	<u>\$ 77,837</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 \$62,411 and \$92,790 at June 30, 2017 and 2016, 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 \$161,522 and \$177,674 at June 30, 2017 and 2016, 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 \$5,608,881 and \$1,615,319 at June 30, 2017 and 2016, respectively.

**4. INVENTORY**

Inventory as of June 30, 2017 and 2016, consisted of materials and supplies with a weighted-average cost of \$240,539 and \$296,869, respectively.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
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**5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of June 30, 2017, is as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	7,431,951	6,590,831	4,154,521	9,868,261
Capital Assets Being Depreciated:				
Structures and improvements	160,377,505	4,934,251	10,177	165,301,579
Equipment	9,800,996	170,939	55,790	9,916,145
Vehicles	1,311,355	96,138	64,573	1,342,920
Less Accumulated Depreciation:				
Structures and improvements	63,381,164	3,853,196	4,626	67,229,734
Equipment	8,488,356	408,039	13,191	8,883,204
Vehicles	<u>416,231</u>	<u>126,553</u>	<u>51,461</u>	<u>491,323</u>
Total	<u>\$108,207,896</u>	<u>\$ 7,404,371</u>	<u>\$ 4,215,783</u>	<u>\$111,396,484</u>

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>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$4,387,789 and \$4,353,078, respectively.

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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, 2017 and 2016 was \$1,801,938 and \$1,793,204, respectively. For the years ended June 30, 2017 and 2016, \$339,377 and \$404,066 of total interest costs were capitalized while the remaining \$1,462,561 and \$1,389,138 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>2017</u>	<u>2016</u>
<u>Revenue Bonds:</u>			
Series 1998-Maturing 2021	3.750% to 4.900%	\$ 350,000	\$ 425,000
Series 2005B-Maturing 2017	3.000% to 3.750%	-	160,000
Series 2010B-Maturing 2030	3.200% to 4.400%	<u>2,495,500</u>	<u>2,648,000</u>
Total Revenue Bonds		<u>2,845,500</u>	<u>3,233,000</u>
<u>KIA Loans:</u>			
KIA Fund A Wastewater-Maturing 2017	1.200%	-	13,427
KIA Fund A Phase II-Maturing 2018	1.800%	188,190	373,037
KIA Fund C Wastewater-Maturing 2018	4.000% to 4.250%	65,000	125,000
KIA Fund A Maturing 2020	0.400%	83,909	117,239
KIA Fund A Phase III-Maturing 2021	3.800%	194,826	245,936
KIA Fund B Water Plant-Maturing 2026	1.900%	1,807,339	1,989,820
KIA Fund A Phase IV-Maturing 2026	1.000%	2,114,923	2,352,153
KIA Fund A Phase V-Maturing 2027	1.000%	1,300,001	1,423,011
KIA Fund F, Drinking Water-Maturing 2028	1.000%	869,689	944,122
KIA Fund F Water-Maturing 2028	3.000%	2,497,111	2,686,140
KIA Fund F Water-Maturing 2032	1.000%	6,970,183	7,383,936
KIA Fund A Sewer-Maturing 2033	2.000%	401,727	422,839
KIA Fund A Sewer-Maturing 2034	2.000%	6,546,148	6,866,546
KIA Fund A Sewer-Maturing 2036	2.000%	6,798,704	-
KIA Fund A Sewer-Maturing 2036	2.000%	9,714,378	-
KIA Fund A (Maturities not established-loans not closed)		<u>1,668,172</u>	<u>16,590,908</u>
Total KIA Loans		<u>41,220,300</u>	<u>41,534,114</u>

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

	<u>Rate</u>	<u>2017</u>	<u>2016</u>
<u>Revenue Leases – Planters:</u>			
Water (loan not closed)	4.000%	\$ 3,976,234	\$ 590,113
Gas (loan not closed)	4.500%	<u>1,544,138</u>	<u>1,006,015</u>
Total Revenue Leases - Planters		<u>5,520,372</u>	<u>1,596,128</u>
<u>Payable to City of Hopkinsville:</u>			
<u>General Obligation Bonds:</u>			
Series 2013B-Maturing 2034	2.000% to 4.500%	3,120,000	3,255,000
Series 2014B-Maturing 2038	1.500% to 6.625%	1,700,000	1,700,000
Series 2014C-Maturing 2029	1.100% to 3.250%	1,380,000	1,500,000
Series 2015A-Maturing 2026	4.000%	<u>13,510,000</u>	<u>14,730,000</u>
Total Payable to City of Hopkinsville		<u>19,710,000</u>	<u>21,185,000</u>
Net Pension Liability		<u>6,361,838</u>	<u>5,081,523</u>
Compensated Absences		<u>408,948</u>	<u>360,826</u>
Total Long-Term Debt		76,066,958	72,990,591
Less: Maturities due within one year		(7,163,571)	(4,223,605)
Unamortized bond (discount) / premium		<u>1,423,167</u>	<u>1,585,521</u>
Total Long-term Debt, Net		<u>\$ 70,326,554</u>	<u>\$ 70,352,507</u>

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

	Principal Outstanding July 1, 2016	Additions	Reductions	Principal Outstanding June 30, 2017	Due Within One Year
Compensated absences	\$ 360,826	\$ 213,547	\$ (165,425)	\$ 408,948	\$ 174,037*
Revenue bonds	3,233,000	-	(387,500)	2,845,500	237,500
KIA loans	41,534,114	2,084,729	(2,398,543)	41,220,300	2,634,946
Revenue leases – Planters	1,596,128	3,924,244	-	5,520,372	2,592,088
<u>Payable to City of Hopkinsville:</u>					
Gen. obligation bond – 2013B	3,255,000	-	(135,000)	3,120,000	140,000
Gen. obligation bond – 2014B	1,700,000	-	-	1,700,000	-
Gen. obligation bond – 2014C	1,500,000	-	(120,000)	1,380,000	115,000
Gen. obligation bond – 2015A	14,730,000	-	(1,220,000)	13,510,000	1,270,000
Net pension liability	5,081,523	1,280,315	-	6,361,838	-
Unamortized bond premium	1,592,668	-	(162,871)	1,429,797	-
Unamortized bond discount	<u>(7,147)</u>	<u>-</u>	<u>517</u>	<u>(6,630)</u>	<u>-</u>
Total	<u>\$ 74,576,112</u>	<u>\$ 7,502,835</u>	<u>\$ (4,588,822)</u>	<u>\$ 77,490,125</u>	<u>\$ 7,163,571</u>

\*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.

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

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

	Principal Outstanding July 1, 2015	Additions	Reductions	Principal Outstanding June 30, 2016	Due Within One Year
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	(9,286)	-	2,139	(7,147)	-
<b>Total</b>	<b>\$ 73,148,894</b>	<b>\$ 5,550,829</b>	<b>\$ (4,123,611)</b>	<b>\$ 74,576,112</b>	<b>\$ 4,223,605</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 matured in 2017. Interest rates ranged from 3.000% to 3.750%. Interest was due in semi-annual installments.

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**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, 2017:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	185,000	77,929	262,929
2023-2027	1,035,000	267,236	1,302,236
2028-2030	605,000	48,320	653,320
Total	<u>\$ 2,845,500</u>	<u>\$ 817,824</u>	<u>\$ 3,663,324</u>

As of June 30, 2017, HWEA has pledged future revenues of the water and sewer system to repay \$2,845,500 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 2% of such net revenues (based on principal and interest payments for the year ending June 30, 2018, as a percentage of net water and sewer system revenues for the year ended June 30, 2017, which totaled \$15,634,463). Principal and interest paid for the year ended June 30, 2017, was \$522,888. As of June 30, 2017, pledged future revenues totaled \$3,663,324, which is the amount of the remaining principal and interest payments on these bonds.

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, 2017 and 2016.

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).

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**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, 2017:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,634,946	\$ 693,806	\$ 3,328,752
2019	2,423,213	647,044	3,070,257
2020	2,448,621	604,752	3,053,373
2021	2,444,799	561,705	3,006,504
2022	2,456,981	519,535	2,976,516
2023-2027	12,325,314	1,947,608	14,272,922
2028-2032	9,417,723	974,690	10,392,413
2033-2037	7,068,703	230,305	7,299,008
Total	<u>\$41,220,300</u>	<u>\$ 6,179,445</u>	<u>\$ 47,399,745</u>

As of June 30, 2017, HWEA has pledged future revenues of the water and sewer system to repay \$41,220,300 in total KIA loans established from 1996 through 2017, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2037, solely from the water and sewer system net revenues. Annual principal and interest on these loans are expected to require approximately 21% of such net revenues (based on principal and interest payments for the year ending June 30, 2018, as a percentage of net water and sewer system revenues for the year ended June 30, 2017, which totaled \$15,634,463). Principal and interest paid for the year ended June 30, 2017, was \$3,149,710. As of June 30, 2017, pledged future revenues totaled \$47,399,745, which was the amount of the remaining principal and interest payments on these KIA loans.

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 October 1, 2027.

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**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.)

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**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, 2017:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,845,000	467,081	2,312,081
2023-2027	8,400,000	1,236,790	9,636,790
2028-2032	1,685,000	384,903	2,069,903
2033-2037	1,000,000	90,702	1,090,702
2038	115,000	2,088	117,088
Total	<u>\$19,710,000</u>	<u>\$ 4,692,028</u>	<u>\$ 24,402,028</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, 2017 and 2016, the amount of bonds outstanding that are considered defeased is undeterminable.

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**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, 2017 and 2016 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 \$64,750 and \$74,060 for the years ended June 30, 2017 and 2016, 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 18.68% of annual covered payroll for fiscal year 2017. Employees classified as hazardous hired prior to September 1, 2008, contribute 8% of their annual creditable compensation, and those hired on or after September 1, 2008, contribute 9%. HWEA had no employees classified as hazardous for years ended June 30, 2017 or 2016. 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 \$618,705 and \$525,846 for the years ended June 30, 2017 and 2016, respectively.

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**7. PENSION PLAN, continued**

Net Pension Liabilities:

At June 30, 2017 and 2016, HWEA reported a liability of \$6,361,838 and \$5,081,523, respectively, for its proportionate share of the net pension liability (NPL), all of which pertained to nonhazardous pensions. The net pension liability was measured as of June 30, 2016 and 2015, 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, 2017 and 2016, HWEA's proportion was 0.12921% and 0.11819%, 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 was determined by an actuarial valuation as of June 30, 2016 using standard roll-forward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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**7. PENSION PLAN, continued**

Actuarial Assumptions and Other Inputs, continued:

Changes in Assumptions:

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

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

Discount Rate:

- a. Discount rate: The discount rate used to measure the total pension liability was 7.50%.
- b. Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- c. Long-term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the 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.

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**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 of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	<u>2%</u>	-0.25%
Total	<u>100%</u>	

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous: Discount rate</u>	6.50%	7.50%	8.50%
HWEA's NPL	<u>\$7,927,880</u>	<u>\$6,361,838</u>	<u>\$5,019,428</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.

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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, 2017 and 2016, HWEA recognized pension expense of \$189,870 and \$608,785, respectively.

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

The \$618,705 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the following measurement period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

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

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**7. PENSION PLAN, continued**

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

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.

**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, 2017 and 2016, 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, 2017</b>				
Assets and deferred outflows of resources:				
Current assets	\$ 6,352,787	\$ 1,692,505	\$ 1,555,315	\$ 9,600,607
Capital assets	60,390,765	47,680,900	3,324,819	111,396,484
Other assets	5,008,046	1,224,087	1,602,480	7,834,613
Total assets	<u>71,751,598</u>	<u>50,597,492</u>	<u>6,482,614</u>	<u>128,831,704</u>
Deferred outflows of resources	<u>1,584,283</u>	<u>1,065,812</u>	<u>-</u>	<u>2,650,095</u>
Liabilities:				
Current liabilities	5,736,468	2,389,199	71,376	8,197,043
Noncurrent liabilities	36,489,143	30,586,073	3,251,338	70,326,554
Total liabilities	<u>42,225,611</u>	<u>32,975,272</u>	<u>3,322,714</u>	<u>78,523,597</u>
Deferred inflows of resources	<u>4,089,297</u>	<u>82,856</u>	<u>1,602,296</u>	<u>5,774,449</u>
Net position:				
Net investment in capital assets (deficit)	22,511,506	18,319,583	73,481	40,904,570
Restricted	1,000,154	1,000,154	-	2,000,308
Unrestricted	3,509,313	(714,561)	1,484,123	4,278,875
Total net position	<u>\$ 27,020,973</u>	<u>\$ 18,605,176</u>	<u>\$ 1,557,604</u>	<u>\$ 47,183,753</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenues (pledged against debt)	\$ 8,114,118	\$ 7,520,345	\$ -	\$ 15,634,463
Depreciation expense	(2,033,310)	(2,354,479)	-	(4,387,789)
Other operating expenses	(4,037,757)	(4,569,721)	-	(8,607,478)
Operating income	2,043,051	596,145	-	2,639,196
Nonoperating revenues (expenses):				
Investment income	26,380	24,990	9,027	60,397
Other nonoperating income	160,938	1,064	351	162,353
Interest expense	(893,043)	(569,518)	-	(1,462,561)
Other nonoperating expense	(56,857)	(40,936)	-	(97,793)
Capital contributions	184,409	-	-	184,409
Transfers	878,320	(1,486,208)	607,888	-
Change in net position	2,343,198	(1,474,463)	617,266	1,486,001
Beginning net position	<u>24,677,775</u>	<u>20,079,639</u>	<u>940,338</u>	<u>45,697,752</u>
Ending net position	<u>\$ 27,020,973</u>	<u>\$ 18,605,176</u>	<u>\$ 1,557,604</u>	<u>\$ 47,183,753</u>

**CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2017**

Net cash provided (used) by:				
Operating activities	\$ 5,411,022	\$ 1,337,308	\$ 393,763	\$ 7,142,093
Capital and related financing activities	(4,304,503)	(2,528,635)	(42,090)	(6,875,228)
Investing activities	26,380	71,561	9,027	106,968
Net increase (decrease)	1,132,899	(1,119,766)	360,700	373,833
Beginning cash and cash equivalents	5,418,499	3,364,214	1,194,799	9,977,512
Ending cash and cash equivalents	<u>\$ 6,551,398</u>	<u>\$ 2,244,448</u>	<u>\$ 1,555,499</u>	<u>\$ 10,351,345</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
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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	1,603,791	(1,771,194)	167,403	-
Change in net position	2,060,843	(1,815,565)	167,754	413,032
Beginning net position	22,616,932	21,895,204	772,584	45,284,720
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	5,757,948	4,454,784	1,931,049	12,143,781
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>

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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, 2017, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 15,295,525	\$15,634,463	\$ 338,938
Other Operating Expenses	(9,203,700)	(8,607,478)	596,222
Depreciation Expense	<u>(4,234,700)</u>	<u>(4,387,789)</u>	<u>(153,089)</u>
Operating Income	1,857,125	2,639,196	782,071
Nonoperating Revenues	58,900	222,750	163,850
Nonoperating Expenses	<u>(1,682,462)</u>	<u>(1,560,354)</u>	<u>122,108</u>
Income before Contributions and Transfers	<u>\$ 233,563</u>	<u>\$ 1,301,592</u>	<u>\$ 1,068,029</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.

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

**12. CONSTRUCTION COMMITMENT**

At June 30, 2017, 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	\$ 103,235	\$ 2,619,546
Water Plant – HVAC Renovation	8,050	111,950
Southpark Water Tank Project	9,047	3,827,575
US 41A Water Main Extension – Locust Grove to I-24	-	2,992,925
Water Main Extension – Eagle Way Bypass	2,121,983	1,826,441
FTC 20" Water Main Extension	3,984,943	110,000
Natural Gas Project - Phase 1	1,666,304	-
FTC 8" Natural Gas - Phase 2	1,562,010	8,190,505
Oak Grove – Phase 2 – Patton/Derby/Good Hope	15,157	73,143
Hammond-Wood Phase 8	130,738	1,298,000
Phase 7 Priority 2 Sewer Rehab	<u>28,151</u>	<u>1,217,000</u>
Total	<u>\$ 9,629,618</u>	<u>\$ 22,267,085</u>

**13. RECLASSIFICATIONS**

Certain accounts in the June 30, 2016, financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2017, financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS**

**14. RELATED PARTY TRANSACTIONS**

The City of Hopkinsville, on behalf of HWEA, has entered into lease agreements with a local bank to finance certain water and natural gas projects. The City of Hopkinsville, on behalf of HWEA, has also issued several general obligation bonds to finance certain water and natural gas projects and to also refund old revenue bonds. See note 6 for details of these transactions.

During the year ended June 30, 2017, the City of Hopkinsville approved a 12% water rate increase that will be effective July 1, 2017. The City of Hopkinsville also approved a series of three sewer rate increases of 14% each that will be effective July 1, 2018, July 1, 2019, and July 1, 2020.

**15. SUBSEQUENT EVENTS**

Subsequent to the year ended June 30, 2017, HWEA finalized and placed into service construction of approximately 5.6 miles of 20" ductile iron water main to serve the Fort Campbell Army Post with a redundant connection for domestic water. At that time, the revenue lease that the City of Hopkinsville had entered into on behalf of HWEA was closed, and a ten-year repayment schedule was established. HWEA began making principal and interest payments on this revenue lease in October 2017 from payments received from USACE, as established in the agreement between HWEA and USACE. See note 6 for additional details of this construction and financing arrangement.

Subsequent to the year ended June 30, 2017, HWEA entered into a contract with Mechanical Consultants for the Water Treatment Plant HVAC Renovation Project. This project has an estimated contract cost of \$117,320.

**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,**

<b><u>Nonhazardous:</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
HWEA's proportion of the net pension liability (asset)	0.129211%	0.118190%	0.114295%
HWEA's proportionate share of the net pension liability (asset)	\$ 6,361,838	\$ 5,081,523	\$ 3,708,000
HWEA's covered payroll	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612
HWEA's proportionate share of the net pension liability as a percentage of its covered payroll	189.61%	162.29%	134.03%
Total pension plan's fiduciary net position	\$ 6,141,394,419	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$ 11,065,012,656	\$ 10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

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

**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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 618,705	\$ 525,846	\$ 487,244	\$ 495,315
Contributions in relation to the contractually required contributions	<u>618,705</u>	<u>525,846</u>	<u>487,244</u>	<u>495,315</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
Contributions as a percentage of covered payroll	18.44%	16.79%	17.61%	18.89%

**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, 2017**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
<b>Current assets</b>										
Cash and cash equivalents										
Petty cash and change fund	\$ 1,000	\$ 1,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Health claims fund	97,804	97,804	-	-	-	-	-	-	-	195,608
Employee reimbursement fund	12,077	-	-	-	-	-	-	-	-	12,077
Operation and maintenance fund	5,312,733	1,019,167	1,555,315	102,571	102,571	23,752	23,752	-	-	8,139,861
<b>Total cash and cash equivalents</b>	<b>5,423,614</b>	<b>1,117,971</b>	<b>1,555,315</b>	<b>102,571</b>	<b>102,571</b>	<b>23,752</b>	<b>23,752</b>	<b>-</b>	<b>-</b>	<b>8,349,546</b>
Customer receivables	541,164	285,304	-	9,717	9,612	17,286	8,080	131,217	-	1,002,380
Inventory	230,814	9,725	-	-	-	-	-	-	-	240,539
Prepaid insurance	3,869	3,869	-	-	-	-	-	-	-	7,738
Accrued interest on note receivable	-	404	-	-	-	-	-	-	-	404
<b>Total current assets</b>	<b>6,199,461</b>	<b>1,417,273</b>	<b>1,555,315</b>	<b>112,288</b>	<b>112,183</b>	<b>41,038</b>	<b>31,832</b>	<b>131,217</b>	<b>-</b>	<b>9,600,607</b>
<b>Restricted assets</b>										
Bond and interest redemption fund										
Investments	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Construction fund										
Cash and cash equivalents	1,307	-	184	-	-	-	-	-	-	1,491
<b>Subtotal</b>	<b>1,307</b>	<b>-</b>	<b>184</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,491</b>
Unemployment fund										
Investments	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Equipment maintenance and replacement fund										
Cash and cash equivalents	1,000,154	1,000,154	-	-	-	-	-	-	-	2,000,308
<b>Subtotal</b>	<b>1,000,154</b>	<b>1,000,154</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000,308</b>
<b>Total restricted assets</b>	<b>1,001,461</b>	<b>1,000,154</b>	<b>184</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,001,799</b>

**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, 2017**

**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	\$ 84,240,666	\$ 77,160,646	\$ -	\$ 787,911	\$ 279,851	\$ 880,264	\$ 1,254,711	\$ 10,054,296	\$ -	\$ 174,658,345
General plant	1,312,314	1,679,701	-	-	-	-	-	482,124	-	3,474,139
Unclassified plant	6,214,889	328,553	3,324,819	-	-	-	-	-	-	9,868,261
	<u>91,767,869</u>	<u>79,168,900</u>	<u>3,324,819</u>	<u>787,911</u>	<u>279,851</u>	<u>880,264</u>	<u>1,254,711</u>	<u>10,536,420</u>	-	<u>188,000,745</u>
Less accumulated depreciation	<u>32,467,374</u>	<u>40,274,663</u>	-	<u>268,847</u>	<u>196,037</u>	<u>309,058</u>	<u>858,986</u>	<u>2,229,296</u>	-	<u>76,604,261</u>
Net property, plant and equipment	<u>59,300,495</u>	<u>38,894,237</u>	<u>3,324,819</u>	<u>519,064</u>	<u>83,814</u>	<u>571,206</u>	<u>395,725</u>	<u>8,307,124</u>	-	<u>111,396,484</u>
Notes receivable										
Receivable - CCBE	-	62,411	-	-	-	-	-	-	-	62,411
Receivable - Hopk Ind. Fdn.	-	161,522	-	-	-	-	-	-	-	161,522
Other receivables										
Receivable - US Army Corps of Engineers	4,006,585	-	1,602,296	-	-	-	-	-	-	5,608,881
Receivable - Crofton division	<u>84,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(84,000)</u>	<u>-</u>
Total notes and other receivables	<u>4,090,585</u>	<u>223,933</u>	<u>1,602,296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(84,000)</u>	<u>5,832,814</u>
Deferred outflows of resources										
Pension	1,046,088	1,047,907	-	-	-	-	-	-	-	2,093,995
Deferred refunding costs	<u>538,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,905</u>	<u>-</u>	<u>556,100</u>
Total deferred outflows of resources	<u>1,584,283</u>	<u>1,047,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,905</u>	<u>-</u>	<u>2,650,095</u>
Total assets and deferred outflows of resources	<u>\$ 72,176,285</u>	<u>\$ 42,583,504</u>	<u>\$ 6,482,614</u>	<u>\$ 631,352</u>	<u>\$ 195,997</u>	<u>\$ 612,244</u>	<u>\$ 427,557</u>	<u>\$ 8,456,246</u>	<u>\$ (84,000)</u>	<u>\$ 131,481,799</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, 2017**

**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	\$ 3,623,375	\$ 1,365,316	\$ -	\$ -	\$ -	\$ 16,732	\$ 16,732	\$ 442,379	\$ -	\$ 5,464,534
Payable to City of Hopkinsville, current portion	1,410,000	115,000	-	-	-	-	-	-	-	1,525,000
Customer deposits	97,603	-	-	-	-	-	-	-	-	97,603
Accrued interest	216,804	35,127	71,376	-	-	21	21	27,565	-	350,914
Construction retainage payable	168,609	160,066	-	-	-	-	-	-	-	328,675
Accounts payable	104,777	120,271	-	684	-	766	-	-	-	226,498
Accounts payable - restricted	-	-	-	-	-	-	-	-	-	-
Construction contracts payable	-	-	-	-	-	-	-	-	-	-
Accrued salaries	14,618	15,164	-	-	-	-	-	-	-	29,782
Accrued compensated absences	82,479	91,558	-	-	-	-	-	-	-	174,037
<b>Total current liabilities</b>	<b>5,718,265</b>	<b>1,902,502</b>	<b>71,376</b>	<b>684</b>	<b>-</b>	<b>17,519</b>	<b>16,753</b>	<b>469,944</b>	<b>-</b>	<b>8,197,043</b>
<b>Long-term debt</b>										
Revenue bonds payable, net of current portion	2,331,369	-	-	-	-	-	-	270,000	-	2,601,369
KIA loans payable, net of current portion	12,828,707	19,204,878	-	-	-	25,223	25,223	6,501,323	-	38,585,354
Revenue leases - Planters, net of current portion	1,384,146	-	1,544,138	-	-	-	-	-	-	2,928,284
Payable to City of Hopkinsville, net of current portion	16,629,293	1,278,305	1,707,200	-	-	-	-	-	-	19,614,798
Net pension liability	3,178,157	3,183,681	-	-	-	-	-	-	-	6,361,838
Crofton division-note payable	-	-	-	-	-	84,000	-	-	(84,000)	-
Compensated absences, net of current portion	112,248	122,663	-	-	-	-	-	-	-	234,911
<b>Total long-term debt</b>	<b>36,463,920</b>	<b>23,789,527</b>	<b>3,251,338</b>	<b>-</b>	<b>-</b>	<b>109,223</b>	<b>25,223</b>	<b>6,771,323</b>	<b>(84,000)</b>	<b>70,326,554</b>
<b>Total liabilities</b>	<b>42,182,185</b>	<b>25,692,029</b>	<b>3,322,714</b>	<b>684</b>	<b>-</b>	<b>126,742</b>	<b>41,976</b>	<b>7,241,267</b>	<b>(84,000)</b>	<b>78,523,597</b>
<b>Deferred inflows of resources</b>										
Deferred revenue - USACE	4,006,585	-	1,602,296	-	-	-	-	-	-	5,608,881
Pension	82,712	82,856	-	-	-	-	-	-	-	165,568
<b>Total deferred inflows of resources</b>	<b>4,089,297</b>	<b>82,856</b>	<b>1,602,296</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,774,449</b>
<b>Net Position</b>										
Net investment in capital assets (deficit)	21,463,191	16,770,672	73,481	519,064	83,814	529,251	353,770	1,111,327	-	40,904,570
Restricted										
Debt reserves	1,000,154	1,000,154	-	-	-	-	-	-	-	2,000,308
Unrestricted (deficit)	3,441,458	(962,207)	1,484,123	111,604	112,183	(43,749)	31,811	103,652	-	4,278,875
<b>Total net position</b>	<b>25,904,803</b>	<b>16,808,619</b>	<b>1,557,604</b>	<b>630,668</b>	<b>195,997</b>	<b>485,502</b>	<b>385,581</b>	<b>1,214,979</b>	<b>-</b>	<b>47,183,753</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 72,176,285</b>	<b>\$ 42,583,504</b>	<b>\$ 6,482,614</b>	<b>\$ 631,352</b>	<b>\$ 195,997</b>	<b>\$ 612,244</b>	<b>\$ 427,557</b>	<b>\$ 8,456,246</b>	<b>\$ (84,000)</b>	<b>\$ 131,481,799</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, 2017**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
Operating revenues	\$ 7,803,465	\$ 5,906,056	\$ -	\$ 117,574	\$ 122,047	\$ 193,079	\$ 102,464	\$ 1,389,778	\$ -	\$ 15,634,463
Operating expenses										
Water source of supply	328,233	-	-	-	-	-	-	-	-	328,233
Water purification	1,138,640	-	-	318	-	18,831	-	-	-	1,157,789
Water distribution	435,206	-	-	46,604	-	73,730	-	-	-	555,540
Sewerage plant	-	1,437,754	-	-	7,321	-	10,714	794,652	-	2,250,441
Sewerage mains and laterals	-	320,829	-	-	61,285	-	31,146	-	-	413,260
Administrative and general	1,890,896	1,823,733	-	617	630	1,085	175	-	-	3,717,136
Technical services	103,597	81,482	-	-	-	-	-	-	-	185,079
Depreciation	1,967,069	1,955,984	-	31,509	9,235	34,732	14,468	374,792	-	4,387,789
Total operating expenses	<u>5,863,641</u>	<u>5,619,782</u>	<u>-</u>	<u>79,048</u>	<u>78,471</u>	<u>128,378</u>	<u>56,503</u>	<u>1,169,444</u>	<u>-</u>	<u>12,995,267</u>
Operating income	<u>1,939,824</u>	<u>286,274</u>	<u>-</u>	<u>38,526</u>	<u>43,576</u>	<u>64,701</u>	<u>45,961</u>	<u>220,334</u>	<u>-</u>	<u>2,639,196</u>
Nonoperating revenues (expenses)										
Interest revenue	26,380	24,990	9,027	-	-	-	-	-	-	60,397
Gain (loss) on sale of fixed assets	6,460	(1,906)	-	-	-	-	-	(37,598)	-	(33,044)
Amortization of deferred refunding costs	(63,317)	-	-	-	-	-	-	(1,432)	-	(64,749)
Amortization of debt discounts and premiums	160,938	-	351	-	-	-	-	1,064	-	162,353
Interest expense	(892,600)	(508,308)	-	(125)	-	(318)	(318)	(60,892)	-	(1,462,561)
Total nonoperating revenues (expenses)	<u>(762,139)</u>	<u>(485,224)</u>	<u>9,378</u>	<u>(125)</u>	<u>-</u>	<u>(318)</u>	<u>(318)</u>	<u>(98,858)</u>	<u>-</u>	<u>(1,337,604)</u>
Income (loss) before contributions and transfers	1,177,685	(198,950)	9,378	38,401	43,576	64,383	45,643	121,476	-	1,301,592
Capital contributions										
Capital assets provided by developers	184,409	-	-	-	-	-	-	-	-	184,409
Grant income	-	-	-	-	-	-	-	-	-	-
Transfers (to) from										
Operating transfers in (out)	902,614	(1,488,753)	607,888	3,619	35,144	(27,913)	(20,244)	(12,355)	-	-
Change in net position	2,264,708	(1,687,703)	617,266	42,020	78,720	36,470	25,399	109,121	-	1,486,001
Net position - beginning of year	23,640,095	18,496,322	940,338	588,648	117,277	449,032	360,182	1,105,858	-	45,697,752
Net position - end of year	<u>\$ 25,904,803</u>	<u>\$ 16,808,619</u>	<u>\$ 1,557,604</u>	<u>\$ 630,668</u>	<u>\$ 195,997</u>	<u>\$ 485,502</u>	<u>\$ 385,581</u>	<u>\$ 1,214,979</u>	<u>\$ -</u>	<u>\$ 47,183,753</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, 2017**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2017	
	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Balance June 30, 2016	Additions	Retirements		Balance June 30, 2017
<b>WATER:</b>									
Land	\$ 1,230,391	\$ -	\$ -	\$ 1,230,391	\$ -	\$ -	\$ -	\$ -	\$ 1,230,391
Structures	3,144,837	-	-	3,144,837	1,739,738	62,660	-	1,802,398	1,342,439
Elevated tanks	3,684,838	-	-	3,684,838	2,359,398	112,941	-	2,472,339	1,212,499
Transmission mains	196,596	-	-	196,596	196,596	-	-	196,596	-
Distribution mains	16,318,051	1,856,096	-	18,174,147	8,282,720	281,497	-	8,564,217	9,609,930
Services	3,036,060	113,899	-	3,149,959	1,562,610	61,760	-	1,624,370	1,525,589
Meters and installation	2,889,614	76,526	-	2,966,140	2,427,908	75,995	-	2,503,903	462,237
Hydrants	979,519	57,300	-	1,036,819	532,800	16,780	-	549,580	487,239
Purification structures	17,737,394	5,069	-	17,742,463	5,029,661	709,773	-	5,739,434	12,003,029
Purification equipment	4,636,882	66,829	-	4,703,711	4,389,823	156,256	-	4,546,079	157,632
Electric pumping equipment	427,334	-	-	427,334	376,653	14,495	-	391,148	36,186
Quarry - raw water supply	29,451,606	-	-	29,451,606	3,554,999	428,186	-	3,983,185	25,468,421
<b>Total water plant</b>	<b>83,733,122</b>	<b>2,175,719</b>	<b>-</b>	<b>85,908,841</b>	<b>30,452,906</b>	<b>1,920,343</b>	<b>-</b>	<b>32,373,249</b>	<b>53,535,592</b>
<b>General</b>									
Transportation equipment	462,923	61,800	28,496	496,227	133,858	46,520	23,355	157,023	339,204
Tractors & backhoes	167,263	32,255	-	199,518	56,874	18,158	-	75,032	124,486
General equipment	372,028	10,786	-	382,814	271,585	15,239	-	286,824	95,990
Office furniture and fixtures	73,741	4,338	-	78,079	32,349	7,831	-	40,180	37,899
Two-way radio equipment	3,370	-	-	3,370	280	675	-	955	2,415
Computer equipment	146,776	5,530	-	152,306	87,472	24,544	-	112,016	40,290
<b>Total general plant</b>	<b>1,226,101</b>	<b>114,709</b>	<b>28,496</b>	<b>1,312,314</b>	<b>582,418</b>	<b>112,967</b>	<b>23,355</b>	<b>672,030</b>	<b>640,284</b>
<b>Unclassified plant</b>									
Construction in progress	2,533,469	5,372,418	1,690,998	6,214,889	-	-	-	-	6,214,889
<b>Total water plant</b>	<b>\$ 87,492,692</b>	<b>\$ 7,662,846</b>	<b>\$ 1,719,494</b>	<b>\$ 93,436,044</b>	<b>\$ 31,035,324</b>	<b>\$ 2,033,310</b>	<b>\$ 23,355</b>	<b>\$ 33,045,279</b>	<b>\$ 60,390,765</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, 2017**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2017	
	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Balance June 30, 2016	Additions	Retirements		Balance June 30, 2017
<b>SEWERAGE:</b>									
Land	\$ 341,449	\$ -	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	3,961,022	24,040	-	3,985,062	1,433,533	136,006	-	1,569,539	2,415,523
Wastewater treatment plants									
Northside	8,421,543	-	-	8,421,543	6,961,145	218,691	-	7,179,836	1,241,707
Hammond-Wood	11,740,344	56,342	-	11,796,686	8,879,819	244,513	-	9,124,332	2,672,354
Machinery and equipment	2,653,881	-	-	2,653,881	2,463,303	67,663	-	2,530,966	122,915
Pumping stations	15,829,845	500,939	10,177	16,320,607	3,391,844	665,287	4,626	4,052,505	12,268,102
Mains and laterals	42,986,234	2,244,042	-	45,230,276	17,028,393	839,107	-	17,867,500	27,362,776
<b>Total sewerage plant</b>	<b>85,934,318</b>	<b>2,825,363</b>	<b>10,177</b>	<b>88,749,504</b>	<b>40,158,037</b>	<b>2,171,267</b>	<b>4,626</b>	<b>42,324,678</b>	<b>46,424,826</b>
<b>General</b>									
Transportation equipment	848,433	34,337	36,077	846,693	282,373	80,033	28,106	334,300	512,393
Tractors & backhoes	156,065	32,255	-	188,320	55,365	17,159	-	72,524	115,796
General equipment	973,259	8,173	55,790	925,642	650,358	56,008	13,191	693,175	232,467
Office furniture and fixtures	78,219	4,338	-	82,557	39,998	8,835	-	48,833	33,724
Two-way radio equipment	3,371	904	-	4,275	281	810	-	1,091	3,184
Computer equipment	108,808	5,530	-	114,338	64,015	20,366	-	84,381	29,957
<b>Total general plant</b>	<b>2,168,155</b>	<b>85,537</b>	<b>91,867</b>	<b>2,161,825</b>	<b>1,092,390</b>	<b>183,211</b>	<b>41,297</b>	<b>1,234,304</b>	<b>927,521</b>
<b>Unclassified plant</b>									
Construction in progress	2,199,213	592,863	2,463,523	328,553	-	-	-	-	328,553
<b>Total sewer plant</b>	<b>\$ 90,301,686</b>	<b>\$ 3,503,763</b>	<b>\$ 2,565,567</b>	<b>\$ 91,239,882</b>	<b>\$ 41,250,427</b>	<b>\$ 2,354,478</b>	<b>\$ 45,923</b>	<b>\$ 43,558,982</b>	<b>\$ 47,680,900</b>
<b>NATURAL GAS:</b>									
<b>Unclassified</b>									
Construction in progress	\$ 2,699,269	\$ 625,550	\$ -	\$ 3,324,819	\$ -	\$ -	\$ -	\$ -	\$ 3,324,819
<b>Total natural gas</b>	<b>\$ 2,699,269</b>	<b>\$ 625,550</b>	<b>\$ -</b>	<b>\$ 3,324,819</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,324,819</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, 2017**

<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>
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	-	-	-	255,630	117,518	-	-	373,148
2035	-	-	-	-	118,865	-	-	118,865
2036	-	-	-	-	115,059	-	-	115,059
2037	-	-	-	-	116,162	-	-	116,162
2038	-	-	-	-	117,088	-	-	117,088
	<u>\$ 394,100</u>	<u>\$ -</u>	<u>\$ 3,269,224</u>	<u>\$ 4,300,611</u>	<u>\$ 2,386,124</u>	<u>\$ 1,629,893</u>	<u>\$ 16,085,400</u>	<u>\$ 28,065,352</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, 2017, is \$2,675,296. 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, 2017 and 2016**

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
<b>Water Source of Supply</b>				
Supplies	\$ 829	0.01%	\$ 4,167	0.03%
Utilities	323,836	2.07%	311,028	2.06%
Grounds and maintenance	3,568	0.02%	9,256	0.06%
Total water source of supply	<u>328,233</u>	<u>2.10%</u>	<u>324,451</u>	<u>2.15%</u>
<b>Water Purification</b>				
Labor	507,136	3.24%	483,531	3.21%
Chemicals	192,473	1.23%	235,206	1.56%
Maintenance to structures	3,299	0.02%	4,269	0.03%
Maintenance to equipment	18,266	0.12%	47,940	0.32%
Supplies	11,888	0.08%	17,349	0.12%
Maintenance to reservoirs and tanks	15,512	0.10%	8,152	0.05%
Utilities	309,655	1.98%	318,115	2.11%
Training and education	3,333	0.02%	3,284	0.02%
Laboratory work	27,984	0.18%	26,710	0.18%
Laboratory supplies and expense	22,098	0.14%	42,975	0.28%
Emergency generators	10,637	0.07%	-	0.00%
Grounds and maintenance	7,782	0.05%	8,360	0.06%
Professional services	-	0.00%	3,981	0.03%
Transportation expense	25,883	0.17%	30,794	0.20%
Small tools	1,843	0.01%	1,037	0.01%
Total water purification	<u>1,157,789</u>	<u>7.41%</u>	<u>1,231,703</u>	<u>8.17%</u>
<b>Water Distribution</b>				
Labor	369,531	2.36%	368,228	2.44%
Supplies	112,563	0.72%	144,045	0.96%
Repairs to distribution mains	30,473	0.19%	14,522	0.10%
Repairs to fire hydrants	851	0.01%	158	0.00%
Repairs to equipment	4,160	0.03%	789	0.01%
Transportation expense	21,283	0.14%	20,423	0.14%
Grounds and maintenance	10,169	0.07%	3,293	0.02%
Utilities	2,052	0.01%	2,304	0.02%
Training, education and licenses	973	0.01%	822	0.01%
Small tools	3,485	0.02%	2,449	0.02%
Total water distribution	<u>555,540</u>	<u>3.55%</u>	<u>557,033</u>	<u>3.69%</u>
Subtotal carried forward	<u>\$ 2,041,562</u>	<u>13.06%</u>	<u>\$ 2,113,187</u>	<u>14.01%</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, 2017 and 2016**

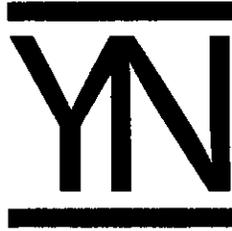
	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	\$ 2,041,562	13.06%	\$ 2,113,187	14.01%
<b>Water Technical Services</b>				
Labor	95,653	0.61%	102,055	0.68%
Supplies	5,458	0.03%	5,158	0.03%
Training, education and licenses	99	0.00%	30	0.00%
Transportation expense	2,387	0.02%	3,375	0.02%
Total water technical services	<u>103,597</u>	<u>0.66%</u>	<u>110,618</u>	<u>0.73%</u>
<b>Water Administrative and General</b>				
Office salaries	321,680	2.06%	292,909	1.94%
Customer service salaries	217,359	1.39%	233,594	1.55%
Employee benefits	848,899	5.43%	1,062,766	7.05%
Office supplies	36,114	0.23%	87,765	0.58%
Postage	16,370	0.10%	16,659	0.11%
Telephone	23,975	0.15%	25,909	0.17%
Insurance and bonds	156,507	1.00%	146,136	0.97%
Professional services	86,068	0.55%	216,284	1.43%
Safety program and drug screening	10,847	0.07%	15,307	0.10%
Office building maintenance	10,910	0.07%	10,838	0.07%
Bad debts, net	55,170	0.35%	45,786	0.30%
Training, education and licenses	1,925	0.01%	12,996	0.09%
Transportation expense	10,601	0.07%	8,011	0.05%
REZ and CCWD rebate payments	13,045	0.08%	773	0.01%
Utilities	23,152	0.15%	21,804	0.14%
Meetings and events	6,531	0.04%	6,580	0.04%
Advertising, donations, and memberships	47,208	0.30%	36,011	0.24%
Miscellaneous	6,237	0.04%	4,878	0.03%
Total water administrative and general	<u>1,892,598</u>	<u>12.11%</u>	<u>2,245,006</u>	<u>14.89%</u>
Total water operating expense other than depreciation	<u>\$ 4,037,757</u>	<u>25.83%</u>	<u>\$ 4,468,811</u>	<u>29.63%</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, 2017 and 2016**

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
<b>Wastewater Treatment Plant</b>				
Labor	\$ 696,861	4.46%	\$ 649,589	4.31%
Chemicals and materials	140,041	0.90%	138,235	0.92%
Supplies and tools	24,674	0.16%	41,392	0.27%
Lights, power, water, and fuel oil	590,475	3.78%	571,132	3.79%
Transportation expense	28,274	0.18%	24,456	0.16%
Repairs - machinery and equipment	141,505	0.91%	119,476	0.79%
Grounds and maintenance	10,576	0.07%	7,290	0.05%
Maintenance of pump stations	187,287	1.20%	109,610	0.73%
Laboratory work	27,817	0.18%	23,647	0.16%
Laboratory supplies and expense	23,581	0.15%	19,886	0.13%
Sludge disposal	353,773	2.26%	437,573	2.90%
Training, education and licenses	1,363	0.01%	2,302	0.02%
Professional services	600	0.00%	34,998	0.23%
Billing and collection expense	23,614	0.15%	24,014	0.16%
	<u>2,250,441</u>	<u>14.39%</u>	<u>2,203,600</u>	<u>14.61%</u>
<b>Total wastewater treatment plant</b>				
<b>Wastewater Mains and Laterals</b>				
Labor	251,086	1.61%	224,700	1.49%
Supplies and tools	92,290	0.59%	92,750	0.61%
Repairs - mains and laterals	6,337	0.04%	10,122	0.07%
Repairs - truck and sewerage equipment	9,151	0.06%	4,015	0.03%
Transportation expense	21,283	0.14%	20,403	0.14%
Utilities	2,052	0.01%	2,304	0.02%
Grounds and maintenance	10,123	0.06%	3,293	0.02%
Training, education and licenses	872	0.01%	532	0.00%
Professional services	600	0.00%	4,870	0.03%
Developer rebates	19,466	0.12%	25,377	0.17%
	<u>413,260</u>	<u>2.64%</u>	<u>388,366</u>	<u>2.57%</u>
<b>Total wastewater mains and laterals</b>				
<b>Wastewater Technical Services</b>				
Labor	73,537	0.47%	80,501	0.53%
Supplies	5,459	0.03%	5,167	0.03%
Training, education and licenses	99	0.00%	30	0.00%
Transportation expense	2,387	0.02%	3,376	0.02%
	<u>81,482</u>	<u>0.52%</u>	<u>89,074</u>	<u>0.59%</u>
<b>Total wastewater technical services</b>				
Subtotal carried forward	<u>\$ 2,745,183</u>	<u>17.56%</u>	<u>\$ 2,681,040</u>	<u>17.78%</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, 2017 and 2016**

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	\$ 2,745,183	17.56%	\$ 2,681,040	17.78%
<b>Sewerage Administrative and General</b>				
Office salaries	320,214	2.05%	294,887	1.96%
Customer service salaries	216,261	1.38%	233,213	1.55%
Employee benefits	805,611	5.15%	1,070,912	7.10%
Office supplies	35,175	0.22%	87,927	0.58%
Postage	16,370	0.10%	16,649	0.11%
Telephone	23,975	0.15%	25,909	0.17%
Insurance and bonds	156,507	1.00%	146,136	0.97%
Professional services	85,610	0.55%	30,504	0.20%
Office building maintenance	10,547	0.07%	10,839	0.07%
Bad debts, net	32,425	0.21%	32,051	0.21%
Training, education and licenses	2,124	0.01%	11,697	0.08%
Safety program and drug screening	13,283	0.08%	16,104	0.11%
Transportation expense	10,603	0.07%	8,012	0.05%
Rez rebate payments	12,250	0.08%	-	0.00%
Utilities	24,066	0.15%	23,802	0.16%
Meetings and events	6,640	0.04%	6,619	0.04%
Advertising, donations, and memberships	47,105	0.30%	36,101	0.24%
Miscellaneous	5,772	0.04%	3,420	0.02%
Total sewer administrative and general	<u>1,824,538</u>	<u>11.67%</u>	<u>2,054,782</u>	<u>13.62%</u>
Total sewerage operating expense other than depreciation	<u>\$4,569,721</u>	<u>29.23%</u>	<u>\$4,735,822</u>	<u>31.40%</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, 2017, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated November 27, 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  
November 27, 2017