

**HOPKINSVILLE WATER
ENVIRONMENT AUTHORITY**

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

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

**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, 2022**

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Jim Blair, Vice Chairman

Janet Calhoun

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Tom Johnson, Council Member

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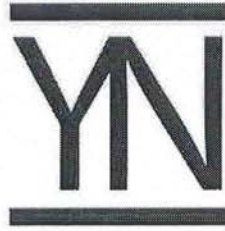
PRESIDENT & CEO

Derrick 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 Audit of the Financial Statements

Opinions

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements as listed in the table of contents.

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, 2022 and 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HWEA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HWEA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HWEA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HWEA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other things, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10, the Schedule of HWEA's Proportionate Share of the Net Pension Liability on page 68, the Schedule of HWEA's Pension Contributions on page 69, the Schedule of HWEA's Proportionate Share of the Net OPEB Liability on page 70, and the Schedule of HWEA's OPEB Contributions on page 71 be presented to supplement the basic financial statements.

Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HWEA's basic financial statements. The accompanying supporting schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 72 through 84, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 supporting schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HWEA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HWEA's internal control over financial reporting and compliance.

York, Neel & Associates, LLP

Hopkinsville, Kentucky
December 8, 2022

**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, 2022 and 2021. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to enhance their understanding of financial performance.

FINANCIAL HIGHLIGHTS

- For the year ended June 30, 2022, HWEA's total assets and deferred outflows of resources increased \$12.06 million, while total liabilities and deferred inflows of resources increased \$11.40 million, resulting in total net position increasing approximately \$657 thousand over the course of the year's operations.
- For the year ended June 30, 2022, HWEA's proportionate share percentage increased from 0.15% to 0.17% for both the CERS pension and OPEB liabilities. HWEA's share of the CERS net pension liability decreased \$0.28 million, and its share of the CERS net OPEB liability decreased \$0.25 million. Changes also occurred in the deferred outflows and inflows of resources related to the net pension and OPEB liabilities.
- Additional changes in long-term debt were the result of HWEA taking draws from certain State Revolving Fund (SRF) loans of the Kentucky Infrastructure Authority (KIA) in order to finance various construction projects and also paying down SRF loans and other debt.
- HWEA's operating revenues increased 8.14% during the year ended June 30, 2022, while operating expenses increased 6.36%. The 14.00% sewer rate increase for Hopkinsville and Pembroke and the 8.00% sewer rate increase for Oak Grove that were implemented in January 2021 and the 9.50% sewer rate increase for Hopkinsville and Pembroke that was implemented in January 2022 helps explain the increase in operating revenues. The largest increase in operating expenses was in wastewater mains and laterals, which mainly stemmed from increases in labor and employee benefits. As part of HWEA recording its proportionate share of the net pension and net OPEB liabilities, an additional \$1.13 million in pension and OPEB expense was recorded for the year ended June 30, 2022, which added to administrative and general expense.
- Non-operating revenues totaled \$133 thousand for each of the years ended June 30, 2022 and 2021.
- Non-operating expenses for the year ended June 30, 2022, decreased approximately \$27 thousand, which was mainly because of interest expense being less due to paying down debt.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

OVERVIEW OF THE FINANCIAL STATEMENTS

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.

REQUIRED FINANCIAL STATEMENTS

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, 2022 and 2021, 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 capital and related 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.

FINANCIAL ANALYSIS OF THE HOPKINSVILLE WATER ENVIRONMENT AUTHORITY

The most common financial question posed to the Hopkinsville Water Environment Authority is "How did we do financially during fiscal year 2022?" 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET POSITION

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

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

	<u>FY 2022</u>	<u>FY 2021</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$11,945	\$11,468	\$ 477	4.16%
Capital Assets	128,970	118,079	10,891	9.22%
Deferred Outflows of Resources	<u>5,271</u>	<u>4,584</u>	<u>687</u>	<u>14.99%</u>
Total Assets and Deferred Outflows of Resources	<u>146,186</u>	<u>134,131</u>	<u>12,055</u>	<u>8.99%</u>
Long-term Debt Outstanding	84,803	75,970	8,833	11.63%
Other Liabilities	1,544	1,244	300	24.12%
Deferred Inflows of Resources	<u>7,268</u>	<u>5,003</u>	<u>2,265</u>	<u>45.27%</u>
Total Liabilities and Deferred Inflows of Resources	<u>93,615</u>	<u>82,217</u>	<u>11,398</u>	<u>13.86%</u>
Net Investment in				
Capital Assets	58,909	57,454	1,455	2.53%
Restricted	2,151	2,133	18	0.84%
Unrestricted	<u>(8,489)</u>	<u>(7,673)</u>	<u>(816)</u>	<u>(10.63)%</u>
Total Net Position	<u>\$52,571</u>	<u>\$51,914</u>	<u>\$ 657</u>	<u>1.27 %</u>

The net increase in current and other assets is mainly due to an overall increase in cash and cash equivalents, which is the result of regular operating activities. Decreases in cash and cash equivalents also occurred from purchasing various capital assets, paying construction costs on various ongoing projects, and making principal and interest payments on debt during the year ended June 30, 2022.

The main reason for the large increase in capital assets relates to the construction of the new Hammond-Wood Waste Water Treatment Plant. Approximately \$14.46 million was spent on this project during the year ended June 30, 2022.

Draws on various SRF loans from KIA to fund certain water and sewer construction projects, and the subsequent repayment of SRF loans and other debt help to explain the net increase in long-term debt outstanding. Other factors affecting long-term debt are the requirements per Governmental Accounting Standards Board Statement (GASBS) No. 68 and GASBS No. 75 to record HWEA's proportionate share of the net pension liability and the net OPEB liability associated with the statewide local government retirement plan in which HWEA participates. GASBS No. 68 and GASBS No. 75 also account for the majority of changes to both deferred outflows and inflows of resources.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET POSITION, continued

Unrestricted net position is the residual of total net position after taking into account net position associated with capital assets and related debt and net position related to restricted assets. The \$816 thousand increase in the deficit of unrestricted net position is a function of various net earnings from operating and nonoperating revenues, expenses, and contributions of capital that occurred during the year ended June 30, 2022. HWEA expects results from future operations to fund the \$8.49 million deficit at June 30, 2022.

CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position, 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 Statements 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 2022</u>	<u>FY 2021</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	\$ 21,499	\$ 19,881	\$ 1,618	8.14 %
Nonoperating Revenues	133	133	-	0.00 %
Total Revenues	<u>21,632</u>	<u>20,014</u>	<u>1,618</u>	<u>8.08 %</u>
Depreciation Expense	5,291	5,040	251	4.98 %
Other Operating Expenses	14,626	13,686	940	6.87 %
Interest Expense	1,180	1,220	(40)	(3.28)%
Other Nonoperating Expenses	78	65	13	20.00 %
Total Expenses	<u>21,175</u>	<u>20,011</u>	<u>1,164</u>	<u>5.82 %</u>
Income/(Loss) before Capital				
Contributions	457	3	454	>100.00%
Capital Contributions	<u>200</u>	<u>227</u>	<u>(27)</u>	<u>11.89%</u>
Change in Net Position	657	230	427	>100.00%
Beginning Net Position	<u>51,914</u>	<u>51,684</u>	<u>230</u>	<u>0.45 %</u>
Ending Net Position	<u>\$ 52,571</u>	<u>\$ 51,914</u>	<u>\$ 657</u>	<u>1.27 %</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CHANGES IN NET POSITION, continued

As can be seen from the table above, operating revenues increased \$1.62 million, which is a result of the 14.00% sewer rate increase for Hopkinsville and the 8.00% sewer rate increase for Oak Grove that were implemented in January 2021, as well as the 9.50% sewer rate increase for Hopkinsville that was implemented in January 2022. The main reason for the \$940 thousand increase in other operating expenses is because of higher salaries and employee benefits. An additional \$1.13 million in pension and OPEB expense was recorded in employee benefits for the year ended June 30, 2022, in order to record HWEA's proportionate share of the net pension and net OPEB liabilities as well as the related pension and OPEB deferred outflows and inflows of resources. Interest expense decreased because of paying down long-term debt.

BUDGETARY HIGHLIGHTS

HWEA is not legally required to adopt and adhere to a budget or to present budgetary comparison information. However, HWEA's Board chooses to approve an annual budget as a management tool, which includes proposed expenses and the means of financing them. The approved budget serves as the foundation for HWEA's financial planning and control.

**Table A-3
Budget vs. Actual
FY 2022
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues	\$ 20,359	\$ 21,499	\$ 1,140
Depreciation Expense	(5,151)	(5,291)	(140)
Other Operating Expenses	<u>(12,824)</u>	<u>(14,626)</u>	<u>(1,802)</u>
Operating Income	2,384	1,582	(802)
Nonoperating Revenues and Capital Contributions	123	333	210
Interest Expense	(1,376)	(1,180)	196
Other Nonoperating Expenses	<u>(46)</u>	<u>(78)</u>	<u>(32)</u>
Change in Net Position	<u>\$ 1,085</u>	<u>\$ 657</u>	<u>\$ (428)</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CAPITAL ASSETS

At June 30, 2022, HWEA had approximately \$223.06 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2022 and 2021, 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, 2022, consisted of work done on various water and sewer projects, the largest of which was the renovation/expansion of the Hammond-Wood Waste Water Treatment Plant. Approximately \$14.46 million was spent on this project during the year ended June 30, 2022, and approximately \$20.58 million remains to complete the project. Other significant construction projects still in progress at June 30, 2022, include the Southpark Water Tank Project, Phase 4 of the Locust Grove to I-24 project, and the Oak Grove Highway 115/911 project.

No construction projects were completed and placed into service during the year ended June 30, 2022. See Note 14 to the financial statements for information on construction commitments.

**Table A-4
Capital Assets**

	<u>FY 2022</u>	<u>FY 2021</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Water	\$ 98,055,572	\$ 97,738,482	\$ 317,090	0.32%
Sewerage	118,989,962	107,024,159	11,965,803	11.18%
Gas	<u>6,013,908</u>	<u>5,994,795</u>	<u>19,113</u>	<u>0.32%</u>
	223,059,442	210,757,436	12,302,006	5.84%
Less: Accumulated Depreciation	<u>(94,088,806)</u>	<u>(92,678,132)</u>	<u>(1,410,674)</u>	<u>(1.52)%</u>
Net Property, Plant and Equipment	<u>\$128,970,636</u>	<u>\$118,079,304</u>	<u>\$10,891,332</u>	<u>9.22%</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

DEBT ADMINISTRATION

The revenues of the water and sewer systems collateralize outstanding revenue bonds and State Revolving Fund loans from the Kentucky Infrastructure Authority. After operation and maintenance expenses are paid, the ordinances specify that revenue bond funds be established and maintained. Debt obtained from the Kentucky Infrastructure Authority is for the purpose of upgrading and expanding the water and sewer systems.

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

OTHER INFORMATION SIGNIFICANT TO OPERATIONS

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 July 1, 2017, and the latest sewer rate increase for Hopkinsville and Pembroke became effective January 1, 2022. For Oak Grove, there was also a sewer rate increase that became effective January 1, 2021. Two additional sewer rate increases of 9.50% each for Hopkinsville and Pembroke will become effective on January 1, 2023 and January 1, 2024. These future increases will impact revenues of HWEA for the coming years.

As discussed in a previous section, HWEA is also currently undergoing a \$47.87 million renovation and expansion of the Hammond-Wood Waste Water Treatment Plant.

In September 2019, HWEA purged and commissioned the Phase I natural gas pipeline, which is composed of 6.3 miles of 12" natural gas main along the US41A corridor. HWEA also has an agreement with Clarksville Gas to supply the pipeline with natural gas. As a result, this natural gas main is now active and HWEA continues to connect new customers as needs arise, which will affect natural gas revenues of HWEA in coming years.

FINAL COMMENTS

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 9th 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, 2022 and 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash and cash equivalents	\$ 6,507,715	\$ 5,936,659
Customer receivables, less allowance for doubtful accounts of \$100,815 and \$0, respectively	1,382,207	1,347,028
Inventory	448,862	349,441
Prepaid insurance	33,474	30,574
Accrued interest on note receivable	202	242
Total current assets	8,372,460	7,663,944
Restricted assets:		
Cash and cash equivalents	2,150,748	2,132,854
Total restricted assets	2,150,748	2,132,854
Property, plant and equipment:		
Property, plant and equipment	195,221,924	197,650,573
Unclassified plant - construction in progress, engineering fees, and other costs	27,837,518	13,106,863
Accumulated depreciation	(94,088,806)	(92,678,132)
Net property, plant and equipment	128,970,636	118,079,304
Note receivable	80,761	96,913
Other receivable - USACE	1,340,675	1,573,864
Total assets	140,915,280	129,546,879
Deferred outflows of resources:		
Deferred outflows from pension	2,850,425	2,547,681
Deferred outflows from OPEB	2,188,325	1,739,239
Deferred refunding costs	232,353	297,103
Total deferred outflows of resources	5,271,103	4,584,023
Total assets and deferred outflows of resources	\$ 146,186,383	\$ 134,130,902

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, 2022 and 2021**

	2022	2021
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities:		
State revolving fund loans, current portion of long-term debt	\$ 2,706,650	\$ 2,660,527
Payable to City of Hopkinsville, current portion of long-term debt	2,107,500	2,030,000
Payable to City of Hopkinsville, PILOT	81,650	80,807
Customer deposits	119,092	118,748
Accrued interest	170,799	194,571
Construction retainage payable	277,895	260,809
Accounts payable	593,463	386,923
Construction contracts payable	128,766	60,981
Accrued salaries	171,427	140,323
Accrued compensated absences	285,050	304,557
Total current liabilities	6,642,292	6,238,246
Long-term debt:		
State revolving fund loans, net of current portion	53,857,917	42,357,455
Payable to City of Hopkinsville, net of current portion	11,343,895	13,613,749
Net pension liability	10,928,222	11,210,428
Net OPEB liability	3,280,640	3,528,329
Compensated absences, net of current portion	293,585	265,348
Total long-term debt	79,704,259	70,975,309
Total liabilities	86,346,551	77,213,555
Deferred inflows of resources:		
Deferred revenue - USACE	4,169,110	4,312,698
Deferred inflows from pension	1,562,615	37,271
Deferred inflows from OPEB	1,536,698	652,984
Total deferred inflows of resources	7,268,423	5,002,953
Net position:		
Net investment in capital assets	58,909,132	57,453,867
Restricted:		
Equipment maintenance and replacement	2,150,748	2,132,854
Unrestricted (deficit)	(8,488,471)	(7,672,327)
Total net position	52,571,409	51,914,394
Total liabilities, deferred inflows of resources, and net position	\$ 146,186,383	\$ 134,130,902

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Charges for services (net of allowances of \$61,307 and \$79,742 for 2022 and 2021, respectively)	\$ 21,128,143	\$ 19,638,836
Other operating revenue	<u>370,944</u>	<u>242,192</u>
Total operating revenues	<u>21,499,087</u>	<u>19,881,028</u>
Operating expenses:		
Water source of supply	579,730	476,119
Water purification	1,822,273	1,740,203
Water distribution	1,213,176	1,081,277
Wastewater treatment plant	3,240,736	3,287,969
Wastewater mains and laterals	1,466,494	1,109,893
Natural gas	516,800	321,895
Administrative and general	5,171,565	5,116,573
Technical services	615,319	553,200
Depreciation	<u>5,291,113</u>	<u>5,039,870</u>
Total operating expenses	<u>19,917,206</u>	<u>18,726,999</u>
Operating income	<u>1,581,881</u>	<u>1,154,029</u>
Nonoperating revenues (expenses):		
Interest revenue	133,020	131,471
Gain (loss) on sale of property, plant and equipment	(13,089)	1,824
Amortization of deferred refunding costs	(64,749)	(64,749)
Interest expense	<u>(1,179,823)</u>	<u>(1,219,810)</u>
Total nonoperating revenues (expenses)	<u>(1,124,641)</u>	<u>(1,151,264)</u>
Income (loss) before capital contributions and special item	457,240	2,765
Capital contributions:		
Capital assets contributed by developers	<u>199,775</u>	<u>227,063</u>
Change in net position	657,015	229,828
Net position - beginning of year	<u>51,914,394</u>	<u>51,684,566</u>
Net position - end of year	<u>\$ 52,571,409</u>	<u>\$ 51,914,394</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash received from customers	\$ 20,992,493	\$ 19,490,993
Cash paid to suppliers for goods and services	(5,730,285)	(5,054,054)
Cash paid to employees for services - including benefits	(7,216,951)	(6,799,736)
Cash paid to City of Hopkinsville for payments in lieu of taxes	(305,814)	(190,489)
Other operating cash received	<u>227,357</u>	<u>98,605</u>
Net cash provided (used) by operating activities	<u>7,966,800</u>	<u>7,545,319</u>
Cash flows from capital and related financing activities		
Acquisition of property, plant and equipment	(15,918,082)	(13,310,204)
Proceeds from disposition of property, plant and equipment	7,194	19,335
Proceeds of capital debt	14,207,113	9,539,984
Principal paid on capital debt	(4,690,528)	(5,416,855)
Interest paid on capital debt	<u>(1,365,948)</u>	<u>(1,401,497)</u>
Net cash provided (used) by capital and related financing activities	<u>(7,760,251)</u>	<u>(10,569,237)</u>
Cash flows from investing activities		
Collection of notes receivable	16,152	16,152
Collection of other receivables	233,189	224,060
Interest earned on cash and cash equivalents	<u>133,060</u>	<u>131,512</u>
Net cash provided (used) by investing activities	<u>382,401</u>	<u>371,724</u>
Net increase (decrease) in cash and cash equivalents	588,950	(2,652,194)
Cash and cash equivalents at beginning of year (includes restricted assets of \$2,132,854 and \$2,116,918 for 2022 and 2021, respectively)	<u>8,069,513</u>	<u>10,721,707</u>
Cash and cash equivalents at end of year (includes restricted assets of \$2,150,748 and \$2,132,854 for 2022 and 2021, respectively)	<u>\$ 8,658,463</u>	<u>\$ 8,069,513</u>

Continued

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS (continued)
For the years ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Cash flows from operating activities		
Operating income	\$ 1,581,881	\$ 1,154,029
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	5,291,113	5,039,870
Amortization of deferred revenue - USACE	(143,587)	(143,587)
Change in allowance for doubtful accounts	100,815	-
Pension expense (GASBS No. 68)	940,394	1,164,567
OPEB expense (GASBS No. 75)	186,940	229,520
Changes in assets and liabilities		
(Increase)/decrease in customer receivables	(135,994)	(150,868)
(Increase)/decrease in inventory	(99,421)	(87,337)
(Increase)/decrease in prepaid insurance	(2,900)	(332)
Increase/(decrease) in accounts payable	207,381	255,379
Increase/(decrease) in customer deposits	344	3,025
Increase/(decrease) in accrued salaries and compensated absences	<u>39,834</u>	<u>81,053</u>
Net cash provided (used) by operating activities	<u>\$ 7,966,800</u>	<u>\$ 7,545,319</u>
<u>Noncash Capital and Related Financing and Investing Items</u>		
Construction costs in accounts payable	\$ 128,766	\$ 60,981

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. In September 2019, HWEA commissioned 6.3 miles of 12” natural gas pipeline along the US41 corridor and is now actively providing natural gas service to customers along the corridor. Natural gas for the pipeline is currently supplied by Clarksville Gas.

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. Presentation, Basis of Accounting, and Measurement Focus

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles for state and local governments in the United States of America.

The operations of HWEA are accounted for as a single governmental enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations that 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. The economic resources measurement focus is used whereby all assets and liabilities (whether current or noncurrent) associated with the activity are reported in the fund’s statement of net position. 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:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Presentation, Basis of Accounting, and Measurement Focus, continued

- *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 and debt. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of amounts with restrictions placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of amounts that do not meet the definition of “restricted” or “net investment in capital assets”.

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

In December 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 1993, began accounting for the water and sewer systems separately. Beginning July 2014, HWEA also began separately accounting for natural gas transactions. See Supporting Schedules and Note 11 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. Investment income consists of interest income.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

d. Cash and Cash Equivalents, Deposits and Investments, continued

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. Both restricted and unrestricted amounts are included on the Statements of Cash Flows.

e. Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding customer accounts. Accounts are considered past due 30 days from the invoice date. 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.

f. Inventories

Inventory is stated at cost. Inventories consist of supplies and parts used in the operation of HWEA's treatment plants and for the maintenance of sewers, fleet vehicles, and other related equipment. Inventory totaled \$448,862 and \$349,441 at June 30, 2022 and 2021, respectively.

g. Prepaid Expenses

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

h. Restricted Assets

Any 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. Amounts included in the "Bond and Interest Redemption" account, if any, are used to segregate resources accumulated for debt service payments over the next twelve months.

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A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

h. Restricted Assets, continued

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

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

	2022	2021
Equipment maintenance and replacement fund	\$ 2,150,748	\$ 2,132,854
Total restricted assets	<u>\$ 2,150,748</u>	<u>\$ 2,132,854</u>

For the years ended June 30, 2022 and 2021, the equipment maintenance and replacement fund includes amounts set aside to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority.

i. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. HWEA maintains a capitalization threshold of \$2,500. Estimated useful lives on depreciable assets are as follows:

Structures, including building components	10 – 50 years
Elevated tanks	10 – 50 years
Distribution mains	10 – 50 years
Services	40 years
Meters and installation	5 – 10 years
Hydrants	50 years
Sewer mains and laterals	10 – 50 years
Purification and pumping equipment	5 – 30 years
Natural gas mains	40 – 50 years
Natural gas meters	5 – 10 years
Transportation equipment	5 – 10 years
General equipment	5 – 20 years
Office furniture, fixtures, equipment	5 – 10 years

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NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

i. Property, Plant and Equipment, continued

Costs incurred for capital construction and acquisition are carried in construction in progress until disposition or completion of the related projects. The major component of construction in progress at June 30, 2022 and 2021 is related to the rehabilitation of the Hammond Wood Waste Water Treatment Plant. Other less significant water and sewer projects are also included in construction in progress. Costs related to projects not pursued are expensed, while costs relating to completed projects are capitalized as property, plant and equipment.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manner of duration of use of a capital asset, and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No material impairment losses were recognized in fiscal year 2022 or 2021.

j. 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.

k. 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.

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NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Long-term Debt, continued

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. Bonds outstanding, which have been refunded and economically defeased, are not included in long-term debt, and the related assets are not included in investments. GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, requires that any loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, is deferred and amortized as a component of interest expense over the shorter of either 1) the original life of the refunded debt or 2) the life of the refunding debt.

l. Capital Contributions

Construction and acquisition of capital assets are financed, in part, from governmental grants and contributions in aid of construction from property owners, developers, and other sources. The revenues from capital contributions from developers are part of the change in net position. Capital assets contributed by developers totaled \$199,775 and \$227,063 for the years ended June 30, 2022 and 2021, respectively. Governmental grants in aid of construction totaled \$62,741 and \$77,823 for the years ended June 30, 2022 and 2021, respectively, and are included as a reduction in the cost of construction.

m. 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 and OPEB plans. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. Those amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows relating to the pension and OPEB plans will be recognized as reductions of the net pension and the net OPEB liabilities in a subsequent year.

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NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

m. Deferred Outflows and Inflows of Resources, continued

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 three items that qualify for reporting in this category. The first item is deferred revenue associated with the arrangement HWEA has with the U.S. Army Corps of Engineers (USACE) relating to financing the water project in Fort Campbell. The other two items are deferred inflows associated with its pension plan and its OPEB plan that will be recognized in pension and OPEB expense in future years.

n. Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital and represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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.

o. Pensions and Other Postemployment Benefits (OPEB)

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

p. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

q. Accounting Pronouncements

Adoption of New Accounting Pronouncements

Effective July 1, 2021, HWEA adopted the following GASB pronouncements and implementation guide:

- ❑ Statement No. 87: *Leases*
- ❑ Statement No. 92: *Omnibus 2020*
- ❑ Statement No. 93: *Replacement of Interbank Offered Rates*
- ❑ Statement No. 97: *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*
- ❑ Implementation Guide No. 2019-3: *Leases*

GASB Statements No. 87, No. 92, No. 93, and No. 97 and Implementation Guide No. 2019-3 did not have a material impact on HWEA's financial reporting.

Recent Accounting Pronouncements

GASB has issued additional guidance that is not yet effective. HWEA is currently reviewing the provisions of the following GASB Statements to determine the impact of implementation in future periods.

- ❑ Statement No. 91: *Conduit Debt Obligations* – effective for fiscal year 2023
- ❑ Statement No. 94: *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* – effective for fiscal year 2023
- ❑ Statement No. 96: *Subscription-based Information Technology Arrangements* - effective for fiscal year 2023
- ❑ Statement No. 99: *Omnibus 2022* – various effective dates
- ❑ Statement No. 100: *Accounting Changes and Error Corrections – as an amendment of GASB No. 62* – effective for fiscal year 2024
- ❑ Statement No. 101: *Compensated Absences* – effective for fiscal year 2025

r. Deficit Net Position

HWEA had deficit unrestricted net position at June 30, 2022 and 2021, totaling \$8,488,471 and \$7,672,327, respectively. These deficits were caused primarily by the accrual of both the net pension liability and the net OPEB liability. HWEA expects results from future operations to fund these deficits.

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

2. CASH 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 reconciliation of cash, cash equivalents and investments as shown on the Statement of Net Position for HWEA is as follows at June 30:

	2022	2021
Cash and cash equivalents		
Unrestricted	\$6,507,715	\$ 5,936,659
Restricted - current	2,150,748	2,132,854
Total cash and cash equivalents	8,658,463	8,069,513
Investments		
Unrestricted	-	-
Restricted - current	-	-
Total investments	-	-
 Total Cash, Cash Equivalents and Investments	 \$8,658,463	 \$ 8,069,513

a. Cash Deposits

Custodial Credit Risk: Custodial credit risk for cash 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. The collateral provided by financial institutions is considered adequate to cover all balances in excess of limits set forth by the Federal Deposit Insurance Corporation; therefore, as of June 30, 2022 and 2021, none of HWEA's deposited funds of cash were exposed to custodial credit risk.

b. Investments

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, 2022 and 2021, HWEA had no investments; therefore, there were no investments that were exposed to custodial credit risk.

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NOTES TO FINANCIAL STATEMENTS**

2. CASH 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, if any, 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>2022</u>	<u>2021</u>
Customer accounts receivable	\$1,456,743	\$ 1,308,333
Allowance for uncollectible accounts	(100,815)	-
Miscellaneous receivables	<u>26,279</u>	<u>38,695</u>
Total customer receivables	<u>\$1,382,207</u>	<u>\$ 1,347,028</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.

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

	<u>2022</u>	<u>2021</u>
Accounts charged off in current period	\$ 201,537	\$ 177,233
Recovery of accounts previously charged off	<u>(56,938)</u>	<u>(57,291)</u>
Net bad debts	<u>\$ 144,599</u>	<u>\$ 119,942</u>

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3. RECEIVABLES, continued

HWEA has a note receivable from the Hopkinsville Industrial Foundation (HIF) for the installation of sewer lines in the industrial park, due in semi-annual installments including interest at 1.0%, due April 2027. The balance of this receivable was \$80,761 and \$96,913 at June 30, 2022 and 2021, respectively.

During the year ended June 30, 2015, HWEA entered into an agreement with USACE to design and construct a water line to serve the Fort Campbell Army Post with a redundant connection for domestic water. This construction project was to be financed with a loan from a local bank; but, once complete, HWEA was to be reimbursed for the full amount of the project over a ten-year period by USACE. As a result of this arrangement, HWEA recorded a receivable (with deferred revenue to offset the receivable) for the amount of funds drawn on the loan. Upon reimbursement by USACE, HWEA would begin to write down the receivable and amortize to revenue the deferred revenue over the same period of time the underlying assets are being depreciated.

During the year ended June 30, 2018, the water line project described above was completed; the line of credit associated with that particular project was closed out; and USACE began repaying HWEA. The first installment payment was a lump sum payment of \$2,499,906 followed by regular monthly installments. USACE is currently making monthly installment payments of \$24,325 including interest at 4.0%, due August 2027. The balance of this other receivable was \$1,340,675 and \$1,573,864 at June 30, 2022 and 2021, respectively. Deferred revenue associated with this water line project is also being amortized now that the project has been completed and put into service. For each of the years ended June 30, 2022 and 2021, \$143,588 was amortized to other operating revenue. The balance of this deferred revenue account was \$4,169,110 and \$4,312,698 at June 30, 2022 and 2021, respectively.

4. INVENTORY

Inventory as of June 30, 2022 and 2021, which consisted of supplies and parts used in the operation of HWEA's treatment plants and for the maintenance of sewers, fleet vehicles, and other related equipment, totaled \$448,862 and \$349,441, respectively.

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5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of June 30, 2022, is as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	13,106,863	14,730,655	-	27,837,518
Capital Assets Being Depreciated:				
Structures and improvements	183,392,365	1,102,571	1,156,167	183,338,769
Equipment	11,196,506	369,496	2,693,744	8,872,258
Vehicles	1,489,862	-	50,805	1,439,057
Less Accumulated Depreciation:				
Structures and improvements	82,102,040	4,810,113	1,141,168	85,770,985
Equipment	9,500,123	339,117	2,688,460	7,150,780
Vehicles	<u>1,075,969</u>	<u>141,877</u>	<u>50,805</u>	<u>1,167,041</u>
Total	<u>\$118,079,304</u>	<u>\$ 10,911,615</u>	<u>\$ 20,283</u>	<u>\$128,970,636</u>

A summary of property, plant and equipment as of June 30, 2021, is as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2021</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	3,707,218	11,476,078	2,076,433	13,106,863
Capital Assets Being Depreciated:				
Structures and improvements	180,408,212	2,984,153	-	183,392,365
Equipment	10,566,042	836,425	205,961	11,196,506
Vehicles	1,423,966	177,661	111,765	1,489,862
Less Accumulated Depreciation:				
Structures and improvements	77,551,518	4,550,522	-	82,102,040
Equipment	9,274,975	286,791	61,643	9,500,123
Vehicles	<u>918,727</u>	<u>202,557</u>	<u>45,315</u>	<u>1,075,969</u>
Total	<u>\$109,932,058</u>	<u>\$ 10,434,447</u>	<u>\$ 2,287,201</u>	<u>\$118,079,304</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$5,291,113 and \$5,039,870, respectively.

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6. LONG-TERM DEBT

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

Long-term debt at June 30 is as follows:

	<u>Rate</u>	<u>2022</u>	<u>2021</u>
<u>State Revolving Fund Loans:</u>			
B95-02 – Water – Maturing 2026	1.900%	\$ 841,334	\$ 1,041,910
A03-05 – Sewer – Maturing 2026	1.000%	892,618	1,141,981
A04-05 – Sewer – Maturing 2027	1.000%	666,207	795,507
F02-04 – Water – Maturing 2028	1.000%	486,183	564,422
F06-02 – Water – Maturing 2028	3.000%	1,462,730	1,682,107
F08-06 – Water – Maturing 2032	1.000%	4,838,359	5,273,272
A11-07 – Sewer – Maturing 2033	2.000%	289,631	312,951
A09-19 – Sewer – Maturing 2034	2.000%	4,844,928	5,198,847
A11-09 – Sewer – Maturing 2036	2.000%	5,250,820	5,572,839
A11-08 – Sewer – Maturing 2036	2.000%	8,427,173	8,923,576
F13-020 – Water – Maturing 2040	1.750%	3,371,302	3,524,402
A19-003 – Sewer **	0.500%	23,020,625	8,813,511
F16-001 – Water **	1.750%	<u>2,172,657</u>	<u>2,172,657</u>
Total State Revolving Fund Loans		<u>56,564,567</u>	<u>45,017,982</u>
 ** Loan is partially drawn; maturity not yet established			
<u>Payable to City of Hopkinsville:</u>			
Revenue Bond:			
Series 2010B-Maturing 2030	3.200% to 4.400%	<u>1,640,000</u>	<u>1,825,000</u>
General Obligation Bonds:			
Series 2013B-Maturing 2034	2.000% to 4.500%	2,385,000	2,540,000
Series 2014B-Maturing 2038	1.500% to 6.625%	1,435,000	1,505,000
Series 2014C-Maturing 2029	1.100% to 3.250%	775,000	900,000
Series 2015A-Maturing 2026	4.000%	<u>6,605,000</u>	<u>8,100,000</u>
Total General Obligation Bonds		<u>11,200,000</u>	<u>13,045,000</u>
Total Payable to City of Hopkinsville		<u>\$ 12,840,000</u>	<u>\$ 14,870,000</u>

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6. LONG-TERM DEBT, continued

	<u>Rate</u>	<u>2022</u>	<u>2021</u>
Net Pension Liability		<u>\$ 10,928,222</u>	<u>\$ 11,210,428</u>
Net OPEB Liability		<u>3,280,640</u>	<u>3,528,329</u>
Compensated Absences		<u>578,635</u>	<u>569,905</u>
Total Long-Term Debt		84,192,064	75,196,644
Less: Maturities due within one year		(5,099,200)	(4,995,084)
Unamortized bond (discount) / premium		<u>611,395</u>	<u>773,749</u>
Total Long-term Debt, Net		<u>\$79,704,259</u>	<u>\$ 70,975,309</u>

During the year ended June 30, 2022, the following changes occurred in long-term debt:

	Principal Outstanding <u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2022</u>	Due Within <u>One Year</u>
Compensated absences	\$ 569,905	\$ 313,287	\$ (304,557)	\$ 578,635	\$ 285,050*
State Revolving Fund Loans	45,017,982	14,207,112	(2,660,527)	56,564,567	2,706,650
Payable to City of Hopkinsville:					
Revenue bond – 2010B	1,825,000	-	(185,000)	1,640,000	192,500
Gen. obligation bond – 2013B	2,540,000	-	(155,000)	2,385,000	160,000
Gen. obligation bond – 2014B	1,505,000	-	(70,000)	1,435,000	70,000
Gen. obligation bond – 2014C	900,000	-	(125,000)	775,000	130,000
Gen. obligation bond – 2015A	8,100,000	-	(1,495,000)	6,605,000	1,555,000
Net pension liability	11,210,428	570,359	(852,565)	10,928,222	-
Net OPEB liability	3,528,329	-	(247,689)	3,280,640	-
Unamortized bond premium	778,313	-	(162,870)	615,443	-
Unamortized bond discount	<u>(4,564)</u>	<u>-</u>	<u>516</u>	<u>(4,048)</u>	<u>-</u>
Total	<u>\$ 75,970,393</u>	<u>\$15,090,758</u>	<u>\$ (6,257,692)</u>	<u>\$ 84,803,459</u>	<u>\$ 5,099,200</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, 2021, the following changes occurred in long-term debt:

	Principal Outstanding July 1, 2020	Additions	Reductions	Principal Outstanding June 30, 2021	Due Within One Year
Compensated absences	\$ 521,915	\$ 315,644	\$ (267,654)	\$ 569,905	\$ 304,557*
State Revolving Fund Loans	38,847,354	9,539,984	(3,369,356)	45,017,982	2,660,527
Payable to City of Hopkinsville:					
Revenue bond – 2010B	2,097,500	-	(272,500)	1,825,000	185,000
Gen. obligation bond – 2013B	2,690,000	-	(150,000)	2,540,000	155,000
Gen. obligation bond – 2014B	1,570,000	-	(65,000)	1,505,000	70,000
Gen. obligation bond – 2014C	1,025,000	-	(125,000)	900,000	125,000
Gen. obligation bond – 2015A	9,535,000	-	(1,435,000)	8,100,000	1,495,000
Net pension liability	9,202,598	2,733,600	(725,770)	11,210,428	-
Net OPEB liability	2,200,233	1,507,094	(178,998)	3,528,329	-
Unamortized bond premium	941,183	-	(162,870)	778,313	-
Unamortized bond discount	(5,081)	-	517	(4,564)	-
Total	<u>\$ 68,625,702</u>	<u>\$14,096,322</u>	<u>\$ (6,751,631)</u>	<u>\$ 75,970,393</u>	<u>\$ 4,995,084</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.

State Revolving Fund Loans:

HWEA utilizes funding provided through the Kentucky Infrastructure Authority's (KIA) State Revolving Fund (SRF). The SRF financing program provides low interest loans for infrastructure projects that are considered a priority based on the water pollution control criteria outlined in the Clean Water Act. HWEA's SRF loans are considered direct placement debt and carry interest rates ranging between 0.500% and 3.000%. For construction projects that have been completed and the related SRF loan has been closed, principal and interest payments are payable semiannually at the fixed rate stipulated in the underlying assistance agreement. For construction projects that are not yet complete and the related SRF loan is still open, interest is payable semiannually, commencing after funds are first drawn on the SRF loan, at the fixed rate stipulated in the underlying assistance agreement. Final maturities on open SRF loans are established after the project is placed in operation.

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6. LONG-TERM DEBT, continued

State Revolving Fund Loans, continued:

Under the assistance agreements entered into with the KIA, in the event of default by HWEA, the KIA may, without any further demand or notice, take one or any combination of the following remedial steps: 1) declare all payments immediately due and payable; 2) exercise all the rights and remedies available to the KIA; 3) take whatever action may appear necessary or desirable to enforce its rights; and 4) submit a formal referral to the appropriate federal agency as required. Events of default include any one or more of the following: 1) failure by HWEA to pay specified payments at specified times; 2) failure by HWEA to observe or perform any covenant, condition or agreement; 3) the dissolution or liquidation of HWEA or the voluntary initiation by HWEA of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt, or any other form of debtor relief; and 4) a default by HWEA under the provisions of any agreements relating to its debt obligations.

Proceeds from the SRF 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).

Annual debt service requirements projected to maturity for all SRF loans are as follows as of June 30, 2022:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,706,650	\$ 552,307	\$ 3,258,957
2024	2,753,659	505,291	3,258,950
2025	2,801,599	457,363	3,258,962
2026	2,720,387	408,499	3,128,886
2027	2,417,695	361,684	2,779,379
2028-2032	10,593,870	1,210,761	11,804,631
2033-2037	6,653,594	355,287	7,008,881
2038-2041	<u>25,917,113</u>	<u>25,555</u>	<u>25,942,668</u>
Total	<u>\$56,564,567</u>	<u>\$ 3,876,747</u>	<u>\$ 60,441,314</u>

As of June 30, 2022, HWEA has pledged future revenues to repay \$56,564,567 in total SRF loans, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2041, solely from net revenues. Annual principal and interest on these loans are expected to require approximately 15.16% of such net revenues (based on principal and interest payments for the year ending June 30, 2023, as a percentage of net system revenues for the year ended June 30, 2022, which totaled \$21,499,087). Principal and interest paid for the year ended June 30, 2022, was \$3,370,856. As of June 30, 2022, pledged future revenues totaled \$60,441,314, which was the amount of the remaining principal and interest payments on these SRF loans.

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6. LONG-TERM DEBT, continued

State Revolving Fund Loans, continued:

KIA requires that HWEA establish a maintenance and replacement reserve account to deposit funds that are to be used specifically for extraordinary maintenance expenses related to projects funded by KIA or for the unbudgeted costs of replacing worn or obsolete portions of such projects. For the years ended June 30, 2022 and 2021, HWEA has set aside \$2,150,748 and \$2,132,854, respectively, to meet these reserve requirements, which are reported as restricted assets on the statement of net position.

Payable to City of Hopkinsville – Revenue Bond:

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. This obligation matures in 2030. Interest rates range from 3.200% to 4.400%. 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, 2022:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 192,500	\$ 70,159	\$ 262,659
2024	198,500	62,074	260,574
2025	205,000	53,737	258,737
2026	214,000	45,127	259,127
2027	225,000	36,139	261,139
2028-2030	<u>605,000</u>	<u>48,320</u>	<u>653,320</u>
Total	<u>\$ 1,640,000</u>	<u>\$ 315,556</u>	<u>\$ 1,955,556</u>

As of June 30, 2022, HWEA has pledged future revenues to repay \$1,640,000 in total revenue bonds. Principal and interest on these bonds are payable through 2030, solely from net revenues. Annual principal and interest on the bonds are expected to require approximately 1.22% of such net revenues (based on principal and interest payments for the year ending June 30, 2023, as a percentage of net system revenues for the year ended June 30, 2022, which totaled \$21,499,087). Principal and interest paid for the year ended June 30, 2022, was \$266,709. As of June 30, 2022, pledged future revenues totaled \$1,955,556, 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.

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6. LONG-TERM DEBT, continued

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 2.000% to 4.500%. 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.) The Series 2014C general obligation bonds were also issued to pay other allowable expenditures including issuance costs. This current refunding took place to achieve debt service savings. This obligation matures in 2029 with interest rates ranging from 1.100% to 3.250%. Interest is due in semi-annual installments. 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 an interest rate of 4.000%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville

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6. LONG-TERM DEBT, continued

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

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, 2022:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,915,000	\$ 395,481	\$ 2,310,481
2024	1,980,000	320,800	2,300,800
2025	2,060,000	243,069	2,303,069
2026	2,100,000	162,094	2,262,094
2027	345,000	115,346	460,346
2028-2032	1,685,000	384,903	2,069,903
2033-2037	1,000,000	90,700	1,090,700
2038	<u>115,000</u>	<u>2,088</u>	<u>117,088</u>
Total	<u>\$11,200,000</u>	<u>\$ 1,714,481</u>	<u>\$ 12,914,481</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, 2022 and 2021, the amount of bonds outstanding that are considered defeased is undeterminable.

Current and advance refundings have resulted in defeasance losses that are being amortized over the life of the refunding bonds. The unamortized losses at June 30, 2022 and 2021 are shown on the statement of net position as deferred refunding costs under deferred outflows of resources and amount to \$232,353 and \$297,103, respectively. Amortization on these refundings was \$64,749 for each of the years ended June 30, 2022 and 2021.

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7. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description:

HWEA participates in the County Employees Retirement System (CERS), which consists of two plans: Non-Hazardous and Hazardous (although HWEA has no employees under the Hazardous plan). Each plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA), a component unit of the Commonwealth of Kentucky, under the provision of Kentucky Revised Statute Section 61.645. The plans cover all regular full-time members employed in non-hazardous and hazardous positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate.

Under the provisions of Kentucky Revised Statute Sections 78.782 and 61.645, the Board of Trustees of KPPA administers Kentucky Employees Retirement System (KERS), CERS, and State Police Retirement System (SPRS). Although the assets of the funds are invested as a whole, each plan's assets are accounted for separately, invested according to plan-specific asset allocation goals, and are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 78.630, 61.570, and 16.555.

KPPA issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to Kentucky Public Pension Authority, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Basis of Accounting:

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, and pension expense, information about fiduciary net position of CERS and additions to/deductions from CERS's 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 are reported at fair value.

Pension Benefits Provided:

The following information summarizes the major pension benefit provisions of CERS (nonhazardous). It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

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7. DEFINED BENEFIT PENSION PLAN, continued

General Information about the Pension Plan, continued

Pension Benefits Provided, continued:

The plan provides for retirement, disability, and death benefits to plan members. Employees are vested in the plan after five years of service. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KPPA benefits. However, the COLA is not a guaranteed benefit, and the General Assembly has the authority to reduce, increase, suspend, or eliminate the COLA in the future. Prior to July 1, 2009, COLAs were provided annually, not to exceed 5.00% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

For retirement purposes, members are grouped into three tiers, based on hire date, and may qualify for either a reduced benefit or an unreduced benefit:

Tier 1	Participation date	Before September 1, 2008
	Unreduced benefit	27 years' service or 65 years old
	Reduced benefit	At least 5 years' service and 55 years old At least 25 years' service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced benefit	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced benefit	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced benefit	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced benefit	Not available

Benefits are paid based on a formula that includes three variables: 1) the member's final compensation; 2) benefit factors, which are set by statute and vary depending upon the type of service, amount of service, participation date, and retirement date; and 3) the member's years of service.

The beneficiary of a retired member receiving a monthly benefit based on at least 48 months of combined service is entitled to one \$5,000 death benefit from KPPA upon the retired member's death. Senate Bill 169, passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability.

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7. DEFINED BENEFIT PENSION PLAN, continued

General Information about the Pension Plan, continued

Pension Contributions:

Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5.00% (nonhazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2 plan members who began participating on or after September 1, 2008 and before January 1, 2014 are required to contribute a total of 6.00% (nonhazardous) of their annual creditable compensation, with 5.00% credited to the member's account and 1.00% deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund. These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Nonhazardous members contribute 6.00% of their monthly creditable compensation (5.00% is deposited into their account, and 1.00% is deposited into an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund, which is not refundable). Nonhazardous, Tier 3 members are also credited with an employer pay credit in the amount of 4.00% of the member's monthly creditable compensation. The employer pay credit amount is deducted from the total employer contribution rate paid on the member's monthly creditable compensation.

HWEA is required to contribute at an actuarially determined rate set by statute unless altered by legislation enacted by the Kentucky General Assembly. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the KPPA Board on the basis of the last annual valuation preceding July 1 of a new biennium. The KPPA Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KPPA Board.

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7. DEFINED BENEFIT PENSION PLAN, continued

General Information about the Pension Plan, continued

Pension Contributions, continued:

For the fiscal years ended June 30, 2022 and 2021, participating employers contributed 26.95% (21.17% allocated to pension and 5.78% allocated to OPEB) and 24.06% (19.30% allocated to pension and 4.76% allocated to OPEB), respectively, of each nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KPPA are financed through employer contributions and investment earnings.

HWEA met 100.00% of the contribution funding requirements to the pension fund for the years ended June 30, 2022 and 2021. HWEA's contributions to the pension fund (excluding the insurance portion) were \$999,232 and \$852,565 for the years ended June 30, 2022 and 2021, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities:

The total pension liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principals and was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation:	2.30%
Payroll Growth Rate:	2.00%
Salary Increase:	3.30% to 10.30%, varies by service
Investment Rate of Return:	6.25%

The mortality table used for active members was Pub-2010 General Mortality table, for the nonhazardous plans and the Pub-2010 Public Safety Mortality table for the hazardous plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for non-disabled retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for disabled members was Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Pension Liabilities, continued:

The total pension liability as of the June 30, 2020 measurement date was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation:	2.30%
Payroll Growth Rate:	2.00%
Salary Increase:	3.30 to 11.55%, varies by service
Investment Rate of Return:	6.25%

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

At June 30, 2022 and 2021, HWEA's proportionate share of the net pension liability for CERS was \$10,928,222 and \$11,210,428, respectively, and was reported on the statements of net position as long-term debt. The net pension liabilities for June 30, 2022 and 2021 were measured as of June 30, 2021 and 2020, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and 2019, respectively. The total pension liability was rolled-forward from the valuation date to the measurement date using generally accepted actuarial principles. HWEA's proportion of the net pension liability was based on HWEA's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2022 and 2021, HWEA's proportionate share of the nonhazardous net pension liability was 0.171402% and 0.146161%, respectively.

Pension Expense:

For the June 30, 2021 and 2020 measurement dates, HWEA was allocated \$1,932,026 and \$2,013,932, respectively, in CERS pension expense.

Deferred Outflows of Resources and Deferred Inflows of Resources - Pension:

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled as deferred outflows.

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7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred Outflows of Resources and Deferred Inflows of Resources – Pension, continued:

Differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees who are provided with pensions through the pension plan (active employees and inactive members) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on pension plan investments should be recognized in pension expense using a systematic and rational method over a closed five-year period. For this purpose, deferred outflows and inflows of resources are recognized in the pension expense as a level dollar amount over the closed period.

At June 30, 2022, HWEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ 125,490	\$ 106,066
Differences between projected and actual earnings on pension plan investments	-	1,456,549
Effects of change in assumptions	146,670	-
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	<u>1,579,033</u>	<u>-</u>
	1,851,193	1,562,615
HWEA contributions subsequent to the measurement date	<u>999,232</u>	<u>-</u>
Total	<u>\$ 2,850,425</u>	<u>\$1,562,615</u>

The \$999,232 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in HWEA's fiscal year ending June 30, 2023. The remainder of deferred outflows and deferred inflows of resources related to pensions will be amortized as follows (any positive amounts will increase pension expense while any negative amounts will decrease pension expense) for the future measurement periods:

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7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred Outflows of Resources and Deferred Inflows of Resources – Pension, continued:

Year ending June 30:

2022	\$ 749,245
2023	282,005
2024	(286,556)
2025	(456,116)
2026	-
Thereafter	<u>-</u>
	<u>\$ 288,578</u>

At June 30, 2021, HWEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual liability experience	\$ 279,553	\$ -
Differences between projected and actual earnings on pension plan investments	280,526	-
Effects of change in assumptions	437,748	-
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	<u>697,289</u>	<u>37,271</u>
	1,695,116	37,271
HWEA contributions subsequent to the measurement date	<u>852,565</u>	<u>-</u>
Total	<u>\$ 2,547,681</u>	<u>\$ 37,271</u>

The \$852,565 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date was recognized as a reduction of net pension liability in HWEA's fiscal year ending June 30, 2022. The remainder of deferred outflows and deferred inflows of resources related to pensions will be amortized as follows (any positive amounts will increase pension expense while any negative amounts will decrease pension expense) for the future measurement periods:

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7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred Outflows of Resources and Deferred Inflows of Resources – Pension, continued:

Year ending June 30:

2021	\$ 746,139
2022	619,177
2023	179,863
2024	112,666
2025	-
Thereafter	<u>-</u>
	<u>\$1,657,845</u>

Actuarial Assumptions and Other Inputs – Pension

Actuarial Assumptions:

The total pension liability, net pension liability, and sensitivity information as of the June 30, 2021 measurement date were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date of June 30, 2020 to the measurement date at June 30, 2021, using generally accepted actuarial principles.

The total pension liability, net pension liability, and sensitivity information as of the June 30, 2020 measurement date were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date of June 30, 2019 to the measurement date at June 30, 2020, using generally accepted actuarial principles.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169, which passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability. The total pension liability as of the June 30, 2021 measurement date was determined using these updated benefit provisions.

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7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Actuarial Assumptions, continued:

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the June 30, 2021 measurement date:

Valuation Date:	June 30, 2019
Experience Study:	July 1, 2013 – June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Pay
Remaining Amortization Period:	30 Years, Closed
Payroll Growth Rate:	2.00%
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation:	2.30%
Salary Increase:	3.30% to 10.30%, varies by service
Investment Rate of Return:	6.25%
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-in Provision:	Board certified rate is phase into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS nonhazardous and hazardous

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the June 30, 2020 measurement date:

Valuation Date:	June 30, 2018
Experience Study:	July 1, 2013 – June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Pay
Remaining Amortization Period:	25 Years, Closed
Payroll Growth Rate:	2.00%
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation:	2.30%
Salary Increase:	3.30% to 11.55%, varies by service
Investment Rate of Return:	6.25%
Mortality:	RP-2000 Combined Mortality Table, projected to 201 with Scale BB (set back 1 year for females)

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7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Discount Rate Assumptions:

- a. Discount Rate: A single discount rate of 6.25% was used for both the non-hazardous and hazardous system to measure the total pension liability for each of the June 30, 2021 and 2020 measurement dates. The single discount rate was based on the expected rate of return on pension plan investments for each plan.
- b. Projected Cash Flows: The projection of cash flows used to determine the single discount rate includes an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session. The assumed future employer contribution for CERS reflect the provision of House Bill 362, passed during the 2018 legislative session, which limits the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.
- c. Long-Term Rate of Return: The long-term expected rate of return was determined by using a building block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- d. Municipal Bond Rate: The discount rate determination does not use a municipal bond rate.
- e. Periods of Projected Benefit Payments: Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of the projected benefit payments to determine the total pension liability for each plan.

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7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Discount Rate Assumptions, continued:

- f. Assumed Asset Allocations: For the June 30, 2021 measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth:		
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity:		
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies:		
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	<u>10.00%</u>	<u>4.55%</u>
Expected Real Return	<u>100.00%</u>	<u>5.00%</u>
Long-Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>7.30%</u>

For the June 30, 2020 measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth:		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	<u>3.95%</u>
Expected Real Return	<u>100.00%</u>	<u>3.96%</u>
Long-Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.26%</u>

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7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Discount Rate Assumptions, continued:

- g. Sensitivity Analysis: For the June 30, 2021 measurement date, the following presents HWEA's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what HWEA's proportionate share of the net pension liability (NPL) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u> Discount rate	5.25%	6.25%	7.25%
HWEA's NPL	<u>\$14,015,963</u>	<u>\$10,928,222</u>	<u>\$8,373,189</u>

For the June 30, 2020 measurement date, the following presents HWEA's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what HWEA's proportionate share of the net pension liability (NPL) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u> Discount rate	5.25%	6.25%	7.25%
HWEA's NPL	<u>\$13,824,897</u>	<u>\$11,210,428</u>	<u>\$9,045,548</u>

Other Information about the Pension Plan

Payables to the Pension Plan:

At June 30, 2022 and 2021 HWEA reported no payables for outstanding contributions to the pension plan for the years then ended.

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Public Pensions Authority Annual Comprehensive Financial Report at www.kyret.ky.gov.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description:

HWEA participates in the County Employees Retirement System (CERS), which consists of two plans: Non-Hazardous and Hazardous (although HWEA has no employees under the Hazardous plan). Each plan is a cost-sharing, multiple-employer Other Post-Employment Benefits (OPEB) plan administered by the Kentucky Public Pensions Authority (KPPA), a component unit of the Commonwealth of Kentucky, under the provision of Kentucky Revised Statute 61.645. The plans cover all regular full-time members employed in non-hazardous and hazardous positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plans provide for health insurance benefits to plan members. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances.

Basis of Accounting:

For purposes of measuring the net other post-employment benefits plan (OPEB) liability, deferred outflow of resources and deferred inflow of resources related to OPEB, and OPEB expense, information about fiduciary net position of CERS and additions to/deductions from CERS's 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 are reported at fair value. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

OPEB Benefits Provided:

The following information summarizes the major OPEB benefit provisions of CERS (nonhazardous). It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

Under the provisions of Kentucky Revised Statute Section 61.701, the KPPA Board also administers the KRS Insurance Fund. The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS, KERS, and SPRS. The assets of the Insurance Fund are segregated by plan. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. KPPA submits the premium payments to DEI and Humana. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

General Information about the OPEB Plan, continued

OPEB Benefits Provided, continued:

The amount of benefit paid by the Insurance Fund is based on years of service. For members whose participation began before July 1, 2003, a percentage of the contribution rate is paid based on years of service with 100% of the contribution rate being paid with 20 years of service. Since the passage of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous members whose participation begins on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. House Bill 1 (2008 Kentucky General Assembly) changed the minimum vesting requirement for participation in the health insurance plan to 15 years for members whose participation began on or after September 1, 2008. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The Insurance Plan pays 100% of the contribution rate for hospital and medical insurance premiums for the spouse and dependent of members who die as a direct result of an act in the line of duty or from a duty-related injury.

OPEB Contributions:

Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly. Tier 2 and Tier 3 members of the CERS plan contribute 1.00% of creditable compensation to an account created for the payment of health insurance benefits. Tier 1 members aren't required to contribute.

HWEA is required to contribute at an actuarially determined rate set by statute unless altered by legislation enacted by the Kentucky General Assembly. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the KPPA Board on the basis of the last annual valuation preceding July 1 of a new biennium. The KPPA Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KPPA Board.

For the fiscal years ended June 30, 2022 and 2021, participating employers contributed 26.95% (21.17% allocated to pension and 5.78% allocated to OPEB) and 24.06% (19.30% allocated to pension and 4.76% allocated to OPEB), respectively, of each nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KPPA are financed through employer contributions and investment earnings.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

General Information about the OPEB Plan, continued

OPEB Contributions, continued:

HWEA met 100.00% of the contribution funding requirements to the OPEB fund for the years ended June 30, 2022 and 2021. HWEA's contributions to the insurance fund (excluding the pension portion) were \$272,818 and \$210,270 for the years ended June 30, 2022 and 2021, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Liabilities:

The total OPEB liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principals and was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation:	2.30%
Payroll Growth Rate:	2.00%
Salary Increase:	3.30% to 10.30%, varies by service
Investment Rate of Return:	6.25%
Healthcare Trend Rates (Pre-65):	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Healthcare Trend Rates (Post-65):	Initial trend starting at 6.30% at January 1, 2023 then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Mortality:	
Pre-retirement:	Pub-2010 General Mortality table, for the nonhazardous plans and the Pub-2010 Public Safety Mortality table for the hazardous plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled):	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using base year of 2019
Post-retirement (disabled):	Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

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

OPEB Liabilities, continued:

The total OPEB liability was rolled forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principals and was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Inflation:	2.30%
Payroll Growth Rate:	2.00%
Salary Increase:	3.30% to 10.30%, varies by service
Investment Rate of Return:	6.25%
Healthcare Trend Rates (Pre-65):	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Healthcare Trend Rates (Post-65):	Initial trend starting at 2.90% at January 1, 2022 and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Mortality:	
Pre-retirement	Pub-2010 General Mortality table, for the nonhazardous plans and the Pub-2010 Public Safety Mortality table for the hazardous plans, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement(non-disabled):	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using base year of 2019
Post-retirement (disabled):	Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

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

OPEB Liabilities, continued:

At June 30, 2022 and 2021, HWEA's proportionate share of the net OPEB liability was \$3,280,640 and \$3,528,329, respectively, and was reported on the statements of net position as long-term debt. The net OPEB liabilities for June 30, 2022 and 2021 were measured as of June 30, 2021 and 2020, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and 2019, respectively. The total OPEB liability was rolled-forward from the valuation date to the measurement date using generally accepted actuarial principles. HWEA's proportion of the net OPEB liability was based on HWEA's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2022 and 2021, HWEA's proportionate share of the nonhazardous net OPEB liability was 0.171362% and 0.146119%, respectively.

OPEB Expense:

For the June 30, 2021 and 2020 measurement dates, HWEA was allocated \$554,882 and \$512,433 in OPEB expense.

Deferred Outflows of Resources and Deferred Inflows of Resources - OPEB:

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows.

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees who are provided with OPEB through the OPEB plan (active employees and inactive members) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five-year period. For this purpose, deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

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

Deferred Outflows of Resources and Deferred Inflows of Resources – OPEB, continued

At June 30, 2022, HWEA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual liability experience	\$ 515,882	\$ 979,490
Difference between projected and actual earnings on OPEB plan investments	-	513,211
Change in assumptions	869,760	3,051
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	<u>529,865</u>	<u>40,946</u>
	1,915,507	1,536,698
HWEA contributions subsequent to the measurement date	<u>272,818</u>	<u>-</u>
Total	<u>\$2,188,325</u>	<u>\$1,536,698</u>

The \$272,818 reported as deferred outflows of resources related to OPEB resulting from HWEA's contributions subsequent to the measurement date will be recognized as a reduction of net OPEB liability in HWEA's fiscal year ending June 30, 2023. The remainder of deferred outflows and deferred inflows of resources related to OPEB will be amortized as follows (any positive amount will increase OPEB expense while any negative amounts will decrease OPEB expense) for the future measurement periods:

Year ending June 30:

2022	\$ 213,277
2023	135,094
2024	135,225
2025	(104,787)
2026	-
Thereafter	<u>-</u>
	<u>\$ 378,809</u>

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

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

Deferred Outflows of Resources and Deferred Inflows of Resources – OPEB, continued:

At June 30, 2021, HWEA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual liability experience	\$ 589,510	\$ 589,970
Difference between projected and actual earnings on OPEB plan investments	117,273	-
Change in assumptions	613,720	3,732
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	<u>208,466</u>	<u>59,282</u>
	1,528,969	652,984
HWEA contributions subsequent to the measurement date	<u>210,270</u>	<u>-</u>
Total	<u>\$1,739,239</u>	<u>\$ 652,984</u>

The \$210,270 reported as deferred outflows of resources related to OPEB resulting from HWEA's contributions subsequent to the measurement date was recognized as a reduction of net OPEB liability in HWEA's fiscal year ended June 30, 2022. The remainder of deferred outflows and deferred inflows of resources related to OPEB will be amortized as follows (any positive amount will increase OPEB expense while any negative amounts will decrease OPEB expense) for the future measurement periods:

Year ending June 30:

2021	\$ 227,986
2022	262,692
2023	196,154
2024	197,615
2025	(8,462)
Thereafter	<u>-</u>
	<u>\$ 875,985</u>

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB

Actuarial Assumptions:

The total OPEB liability, net OPEB liability, and sensitivity information as of the June 30, 2021 measurement date were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date of June 30, 2020 to the measurement date at June 30, 2021, using generally accepted actuarial principles.

The total OPEB liability, net OPEB liability, and sensitivity information as of the June 30, 2020 measurement date were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date of June 30, 2019 to the measurement date at June 30, 2020, using generally accepted actuarial principles.

The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20% for the nonhazardous fund. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plan's anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. There were no other material assumption changes.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that were payable starting July 1, 2020.

There have been no actuarial assumption or method changes since June 30, 2020. Senate Bill 169, which passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability. The total OPEB liability as of the June 30, 2021 measurement date was determined using these updated benefit provisions.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Actuarial Assumptions, continued:

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the June 30, 2021 measurement date:

Valuation Date:	June 30, 2019
Experience Study:	July 1, 2013 – June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Pay
Remaining Amortization Period:	30 Years, closed period at June 30, 2019
Payroll Growth Rate:	2.00%
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Investment Rate of Return:	6.25%
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Healthcare Trend Rates (Pre-65):	Initial trend starting at 6.25% on January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Trend Rates (Post-65):	Initial trend starting at 5.50% on January 1, 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 that was enacted in 2018.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Actuarial Assumptions, continued

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the June 30, 2020 measurement date:

Valuation Date:	June 30, 2018
Experience Study:	July 1, 2008 – June 30, 2013
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Pay
Remaining Amortization Period:	25 Years, closed
Payroll Growth Rate:	2.00%
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation:	2.30%
Salary Increases:	3.30% to 11.55%, varies by service
Investment Rate of Return:	6.25%
Healthcare Trend Rates (Pre-65):	Initial trend starting at 7.00% on January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Trend Rates (Post-65):	Initial trend starting at 5.00% on January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 that was enacted in 2018.

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 for one year for females). For disabled members, the RP-200 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions:

- a. Discount Rate: The discount rate used to measure the total OPEB liability was 5.20%, which decreased from the prior year rate of 5.34%. The discount rates for each year were based on the expected rate of return on OPEB plan investments of 6.25%.
- b. Projected Cash Flows: The projection of cash flows used to determine the single discount rate includes an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently reviewed by House Bill 8, passed during the 2021 legislative session. The assumed future employer contributions for CERS reflect the provisions of House Bill 362 (passed during the 2018 legislative session), which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.
- c. Long-Term Rate of Return: The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage.
- d. Municipal Bond Rate: The discount rate determination used a municipal bond rate of 1.92%, as reported in Fidelity Index's *20-Year Municipal GO AA Index* as of June 30, 2021. The discount rate determination used a municipal bond rate of 2.45%, as reported in Fidelity Index's *20-Year Municipal GO AA Index* as of June 30, 2020.
- e. Period of Projected Benefit Payments: Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's current assets, future contributions, and investment earnings are projected to be sufficient to finance the future benefit payments of the current plan members. However, the cost associated with the implicit rate subsidy is not currently being included in the calculation of the actuarial determined contributions, and it is understood that any cost associated with the implicit subsidy will not be paid out of the Plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions, continued:

- f. Assumed Asset Allocations: For the June 30, 2021 measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth:		
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity:		
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies:		
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	<u>10.00%</u>	<u>4.55%</u>
Expected Real Return	<u>100.00%</u>	<u>5.00%</u>
Long-Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>7.30%</u>

For the June 30, 2020 measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth:		
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity:		
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	<u>3.95%</u>
Expected Real Return	<u>100.00%</u>	<u>3.96%</u>
Long-Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.26%</u>

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions, continued:

- g. Sensitivity Analysis: For the June 30, 2021 measurement date, the following presents HWEA's proportionate share of the net OPEB liability calculated using the discount rate of 5.20%, as well as what HWEA's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20%) or 1-percentage-point higher (6.20%) than the current rate:

<u>Nonhazardous:</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Discount rate	4.20%	5.20%	6.20%
HWEA's Net OPEB Liability	<u>\$4,504,294</u>	<u>\$3,280,640</u>	<u>\$2,276,429</u>

For the June 30, 2021 measurement date, the following presents HWEA's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate, as well as what HWEA's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for non-hazardous:

<u>Nonhazardous:</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
HWEA's Net OPEB Liability	<u>\$2,361,671</u>	<u>\$3,280,640</u>	<u>\$4,389,850</u>

For the June 30, 2020 measurement date, the following presents HWEA's proportionate share of the net OPEB liability calculated using the discount rate of 5.34%, as well as what HWEA's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

<u>Nonhazardous:</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Discount rate	4.34%	5.34%	6.34%
HWEA's Net OPEB Liability	<u>\$4,532,868</u>	<u>\$3,528,329</u>	<u>\$2,703,269</u>

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8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions, continued:

- g. Sensitivity Analysis, continued: For the June 30, 2020 measurement date, the following presents HWEA's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate, as well as what HWEA's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for non-hazardous:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Healthcare Cost</u> <u>Trend Rate</u>	<u>1%</u> <u>Increase</u>
<u>Nonhazardous:</u>			
HWEA's Net OPEB Liability	<u>\$2,731,809</u>	<u>\$3,528,329</u>	<u>\$4,494,926</u>

Other Information about the OPEB Plan

Payables to the OPEB Plan:

At June 30, 2022 and 2021 HWEA reported no payables for outstanding contributions to the OPEB plan for the years then ended.

OPEB Plan Fiduciary Net Position:

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Public Pensions Authority Annual Comprehensive Financial Report at www.kyret.ky.gov.

9. DEFERRED COMPENSATION

HWEA employees who participate in CERS through KPPA have the option to also participate in tax-deferred supplemental retirement plans that are administered by the Kentucky Public Employees' Deferred Compensation Authority (KDC) under the authority of Kentucky Revised Statutes (18A.230 – 18A.275). These plans permit employees to defer the payment of a portion of their salary until future years. Participation in these plans is voluntary and HWEA makes no contributions to these plans on behalf of the employee and maintains no custodial role for investments or investment transactions. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts of compensation deferred, including the investments and earnings thereon, vest with the employee and are not subject to the claims of HWEA's general creditors.

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10. 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, 2022, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 20,358,658	\$21,499,087	\$ 1,140,429
Other Operating Expenses	(12,823,699)	(14,626,093)	(1,802,394)
Depreciation Expense	<u>(5,150,500)</u>	<u>(5,291,113)</u>	<u>(140,613)</u>
Operating Income	2,384,459	1,581,881	(802,578)
Nonoperating Revenues and Capital Contributions	123,275	332,795	209,520
Interest Expense	(1,376,330)	(1,179,823)	196,507
Other Nonoperating Expenses	<u>(46,043)</u>	<u>(77,838)</u>	<u>(31,795)</u>
Change in Net Position	<u>\$ 1,085,361</u>	<u>\$ 657,015</u>	<u>\$ (428,346)</u>

Actual revenues and expenditures as compared to budgeted amounts for the year ended June 30, 2021, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 19,640,461	\$19,881,028	\$ 240,567
Other Operating Expenses	(11,585,515)	(13,687,129)	(2,101,614)
Depreciation Expense	<u>(5,181,250)</u>	<u>(5,039,870)</u>	<u>141,380</u>
Operating Income	2,873,696	1,154,029	(1,719,667)
Nonoperating Revenues and Capital Contributions	160,650	360,358	199,708
Interest Expense	(1,456,050)	(1,219,810)	236,240
Other Nonoperating Expenses	<u>(75,285)</u>	<u>(64,749)</u>	<u>10,536</u>
Change in Net Position	<u>\$ 1,503,011</u>	<u>\$ 229,828</u>	<u>\$ (1,273,183)</u>

11. 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, 2022 and 2021, are presented on the following pages.

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11. SEGMENT REPORTING, continued

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2022				
Assets:				
Current assets	\$ 1,199,536	\$ 6,840,732	\$ 332,192	\$ 8,372,460
Capital assets	56,718,426	66,546,380	5,705,830	128,970,636
Other assets	<u>2,416,049</u>	<u>1,156,135</u>	<u>-</u>	<u>3,572,184</u>
Total assets	<u>60,334,011</u>	<u>74,543,247</u>	<u>6,038,022</u>	<u>140,915,280</u>
Deferred outflows of resources	<u>2,554,576</u>	<u>2,716,527</u>	<u>-</u>	<u>5,271,103</u>
Liabilities:				
Current liabilities	3,836,854	2,712,414	93,024	6,642,292
Noncurrent liabilities	<u>28,108,525</u>	<u>50,225,290</u>	<u>1,370,444</u>	<u>79,704,259</u>
Total liabilities	<u>31,945,379</u>	<u>52,937,704</u>	<u>1,463,468</u>	<u>86,346,551</u>
Deferred inflows of resources	<u>5,604,107</u>	<u>1,664,316</u>	<u>-</u>	<u>7,268,423</u>
Net position:				
Net investment in capital assets	32,539,503	22,104,243	4,265,386	58,909,132
Restricted	1,075,374	1,075,374	-	2,150,748
Unrestricted (deficit)	<u>(8,275,776)</u>	<u>(521,863)</u>	<u>309,168</u>	<u>(8,488,471)</u>
Total net position	<u>\$ 25,339,101</u>	<u>\$ 22,657,754</u>	<u>\$ 4,574,554</u>	<u>\$ 52,571,409</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2022**

Operating revenues (pledged against debt)	\$ 9,058,925	\$ 11,608,227	\$ 831,935	\$ 21,499,087
Depreciation expense	(2,386,643)	(2,768,161)	(136,309)	(5,291,113)
Other operating expenses	<u>(6,387,757)</u>	<u>(7,721,536)</u>	<u>(516,800)</u>	<u>(14,626,093)</u>
Operating income	284,525	1,118,530	178,826	1,581,881
Nonoperating revenues (expenses):				
Investment income	95,500	37,520	-	133,020
Other nonoperating income	-	2,262	-	2,262
Interest expense	(548,909)	(583,284)	(47,630)	(1,179,823)
Other nonoperating expense	(70,565)	(9,535)	-	(80,100)
Capital contributions	199,775	-	-	199,775
Transfers	<u>(1,132,024)</u>	<u>1,514,157</u>	<u>(382,133)</u>	<u>-</u>
Change in net position	<u>(1,171,698)</u>	<u>2,079,650</u>	<u>(250,937)</u>	<u>657,015</u>
Beginning net position	<u>26,510,799</u>	<u>20,578,104</u>	<u>4,825,491</u>	<u>51,914,394</u>
Ending net position	<u>\$ 25,339,101</u>	<u>\$ 22,657,754</u>	<u>\$ 4,574,554</u>	<u>\$ 52,571,409</u>

CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2022

Net cash provided (used) by:				
Operating activities	\$ 1,786,869	\$ 6,271,147	\$ (91,216)	\$ 7,966,800
Capital and related financing activities	(4,531,262)	(3,091,456)	(137,533)	(7,760,251)
Investing activities	<u>328,689</u>	<u>53,712</u>	<u>-</u>	<u>382,401</u>
Net increase (decrease)	<u>(2,415,704)</u>	<u>3,233,403</u>	<u>(228,749)</u>	<u>588,950</u>
Beginning cash and cash equivalents	<u>3,614,414</u>	<u>3,956,322</u>	<u>498,777</u>	<u>8,069,513</u>
Ending cash and cash equivalents	<u>\$ 1,198,710</u>	<u>\$ 7,189,725</u>	<u>\$ 270,028</u>	<u>\$ 8,658,463</u>

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

11. SEGMENT REPORTING, continued

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2021				
Assets:				
Current assets	\$ 3,560,318	\$ 3,567,808	\$ 535,818	\$ 7,663,944
Capital assets	58,002,266	54,254,012	5,823,026	118,079,304
Other assets	<u>2,640,291</u>	<u>1,163,340</u>	<u>-</u>	<u>3,803,631</u>
Total assets	<u>64,202,875</u>	<u>58,985,160</u>	<u>6,358,844</u>	<u>129,546,879</u>
Deferred outflows of resources	<u>2,323,024</u>	<u>2,260,999</u>	<u>-</u>	<u>4,584,023</u>
Liabilities:				
Current liabilities	3,681,689	2,463,999	92,558	6,238,246
Noncurrent liabilities	<u>31,692,550</u>	<u>37,841,964</u>	<u>1,440,795</u>	<u>70,975,309</u>
Total liabilities	<u>35,374,239</u>	<u>40,305,963</u>	<u>1,533,353</u>	<u>77,213,555</u>
Deferred inflows of resources	<u>4,640,861</u>	<u>362,092</u>	<u>-</u>	<u>5,002,953</u>
Net position:				
Net investment in capital assets	30,804,516	22,337,120	4,312,231	57,453,867
Restricted	1,066,427	1,066,427	-	2,132,854
Unrestricted (deficit)	<u>(5,360,144)</u>	<u>(2,825,443)</u>	<u>513,260</u>	<u>(7,672,327)</u>
Total net position	<u>\$ 26,510,799</u>	<u>\$ 20,578,104</u>	<u>\$ 4,825,491</u>	<u>\$ 51,914,394</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2021**

Operating revenues (pledged against debt)	\$ 8,801,869	\$ 10,491,204	\$ 587,955	\$ 19,881,028
Depreciation expense	(2,288,238)	(2,619,178)	(132,454)	(5,039,870)
Other operating expenses	<u>(6,048,016)</u>	<u>(7,317,218)</u>	<u>(321,895)</u>	<u>(13,687,129)</u>
Operating income	465,615	554,808	133,606	1,154,029
Nonoperating revenues (expenses):				
Investment income	99,192	32,279	-	131,471
Other nonoperating income	1,993	-	-	1,993
Interest expense	(634,468)	(535,993)	(49,349)	(1,219,810)
Other nonoperating expense	(63,317)	(1,601)	-	(64,918)
Capital contributions	227,063	-	-	227,063
Transfers	<u>(1,804,734)</u>	<u>1,420,535</u>	<u>384,199</u>	<u>-</u>
Change in net position	<u>(1,708,656)</u>	<u>1,470,028</u>	<u>468,456</u>	<u>229,828</u>
Beginning net position	<u>28,219,455</u>	<u>19,108,076</u>	<u>4,357,035</u>	<u>51,684,566</u>
Ending net position	<u>\$ 26,510,799</u>	<u>\$ 20,578,104</u>	<u>\$ 4,825,491</u>	<u>\$ 51,914,394</u>

CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2021

Net cash provided (used) by:				
Operating activities	\$ 1,421,821	\$ 5,497,962	\$ 625,536	\$ 7,545,319
Capital and related financing activities	(3,821,121)	(6,569,492)	(178,624)	(10,569,237)
Investing activities	<u>323,252</u>	<u>48,472</u>	<u>-</u>	<u>371,724</u>
Net increase (decrease)	<u>(2,076,048)</u>	<u>(1,023,058)</u>	<u>446,912</u>	<u>(2,652,194)</u>
Beginning cash and cash equivalents	<u>5,690,462</u>	<u>4,979,380</u>	<u>51,865</u>	<u>10,721,707</u>
Ending cash and cash equivalents	<u>\$ 3,614,414</u>	<u>\$ 3,956,322</u>	<u>\$ 498,777</u>	<u>\$ 8,069,513</u>

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

12. 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.

As with virtually all other utilities in the United States, HWEA dealt with COVID-19. Fortunately, HWEA's operations were deemed to be essential infrastructure entities by federal and state governments, which allowed management to continue operating all facilities and operations. HWEA followed all Executive Orders issued by the Governor of the State of Kentucky to suspend the disconnection of services due to nonpayment and to waive the assessment of late payment fees for the period of time specified in the Orders. HWEA operations were not significantly impacted by COVID-19.

13. 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.

HWEA has a self-insured health plan for its employees. HWEA has purchased stop-loss insurance in order to limit its exposure, which will reimburse HWEA for individual claims in excess of \$40,000 annually. Self-insurance losses are accrued based on HWEA's estimate of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed by the insurance industry.

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NOTES TO FINANCIAL STATEMENTS**

13. 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. At June 30, 2022 and 2021, the claims liability was \$119,927 and \$120,108, 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>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2020-2021	\$ 55,227	\$ 685,401	\$ 620,520	\$120,108
2021-2022	\$120,108	\$ 321,873	\$ 561,908	\$119,927

14. CONSTRUCTION COMMITMENT

HWEA is committed under various construction contracts. At June 30, 2022, HWEA had several construction projects underway:

<u>Project</u>	<u>Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Southpark Water Tank Project	\$ 257,703	\$ 4,947,336
Locust Grove to I-24 – Phase 4	119,820	4,634,399
Pyle Lane Sewer Pump Station Rehab	56,647	134,771
KYTC US 68/80/7 th Street Widening	30	*
KYTC Pembroke Connector	161	*
Blooming Grove Sewer Pump Station Rehab	78,458	129,174
KY 800 East Sewer Pump Station Rehab	35,757	153,378
Oak Grove Hwy 115/911 Project	1,025	2,351,309
Hammond-Wood Phase 8 Expansion / Rehab	<u>27,287,917</u>	<u>20,583,491</u>
Total	<u>\$ 27,837,518</u>	<u>\$ 32,933,858</u>

* Undetermined – reimbursable by Kentucky Transportation Cabinet

15. RECLASSIFICATIONS

Prior period financial statement amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on the changes in net position or total net position.

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16. RELATED PARTY TRANSACTIONS

The City of Hopkinsville, on behalf of HWEA, has 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.

As compensation to the City of Hopkinsville for use of the City's public rights-of-way, effective July 1, 2020, HWEA began collecting from customers and transferring to the City on a quarterly basis, payments in lieu of taxes equal to 2.00% of the gross revenue from the sale of water and sewer service received from customers located within the city limits of Hopkinsville, Kentucky. For the year ended June 30, 2022, HWEA collected \$295,520 from customers for payments in lieu of taxes on water and sewer revenues. Of this amount, \$225,007 had been paid to the City by June 30, 2021, and \$70,513 was recorded as an account payable to the City. For the year ended June 30, 2021, HWEA collected \$261,061 from customers for payments in lieu of taxes on water and sewer revenues. Of this amount, \$190,489 had been paid to the City by June 30, 2021, and \$70,572 was recorded as an account payable to the City.

As compensation to the City of Hopkinsville for use of the City's public rights-of-way, effective July 1, 2020, HWEA also began paying the City on an annual basis, payments in lieu of taxes equal to \$0.015 per CCF of natural gas sold to customers located within the city limits of Hopkinsville, Kentucky. For the years ended June 30, 2022 and 2021, payments in lieu of taxes on natural gas sales totaled \$11,137 and \$10,235, respectively, all of which were accrued at June 30, 2022 and 2021, respectively.

The City of Hopkinsville approved a series of sewer rate increases of 14.00% each for the Hopkinsville sewer division that were effective July 1, 2018, July 1, 2019, and January 1, 2021. The City of Hopkinsville also approved a series of sewer rate increases of 9.50% each for the Hopkinsville and Pembroke sewer divisions that were, or will be, effective January 1, 2022, January 1, 2023, and January 1, 2024.

HWEA provides billing and cash collection services and leachate purification services for Hopkinsville Solid Waste Enterprise (HSWE), a component unit of the City of Hopkinsville, Kentucky. For the years ended June 30, 2022 and 2021, HWEA charged HSWE \$96,932 and \$91,296, respectively, for billing and collection services and \$80,104 and \$55,707, respectively, for leachate purification services. HWEA also provides billing and cash collection services for Hopkinsville Surface & Stormwater Utility (HSSU), a component unit of the City of Hopkinsville, Kentucky. For the years ended June 30, 2022 and 2021, HWEA charged HSSU \$89,189 and \$85,281, respectively, for these services.

17. CONCENTRATIONS

HWEA purchases all of its natural gas to supply its natural gas lines from Clarksville Gas & Water located in Clarksville, Tennessee. For the years ended June 30, 2022 and 2021, HWEA purchased natural gas from Clarksville Gas & Water totaling \$446,019 and \$250,998, respectively. At June 30, 2022 and 2021, HWEA had no payables with Clarksville Gas & Water.

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

18. SINGLE AUDIT ACT

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), requires non-federal entities that expend \$750,000 or more a year in federal awards to have an audit performed in accordance with the provisions of the guidance. The Single Audit section is issued in this report beginning on page 83.

19. SUBSEQUENT EVENTS

A sewer rate increase of 9.50% for Hopkinsville and Pembroke will go into effect on January 1, 2023, which will affect sewer revenues for those divisions.

HWEA continues to make draws from open State Revolving Fund loans with KIA in order to finance various ongoing construction projects.

A request was submitted to Kentucky Emergency Management for reimbursement of eligible operating expenses related to the Kentucky COVID-19 Pandemic (DR-4497-KY) in the amount of \$133,348.

HWEA’s Board approved three motions to sign resolutions with KIA to receive grants from the Kentucky Cleaner Water Program, as provided by the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund. Although no grant money has yet been received, HWEA has begun the required bidding related to the following projects that will be funded by these grants:

<u>Project</u>	<u>Grant Amount</u>
ARPA AMR/AMI Water Meter Replacement Program	\$ 2,394,897
ARPA Sewer Manhole Rehabilitation Project	100,000
Conference Center Force Main Relocation Project	400,000

Management has evaluated subsequent events through December 8, 2022, the date on which the financial statements were available to be issued.

**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
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
SCHEDULE OF HWEA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nonhazardous:								
HWEA's proportion of the net pension liability	\$ 0.171402%	\$ 0.146161%	\$ 0.130848%	\$ 0.130222%	\$ 0.136035%	\$ 0.129211%	\$ 0.118190%	\$ 0.114295%
HWEA's proportionate share of the net pension liability	\$ 10,928,222	\$ 11,210,428	\$ 9,202,598	\$ 7,930,917	\$ 7,962,547	\$ 6,361,838	\$ 5,081,523	\$ 3,708,000
HWEA's covered payroll	\$ 4,417,434	\$ 3,760,467	\$ 3,299,769	\$ 3,256,186	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
HWEA's proportionate share of the net pension liability as a percentage of its covered payroll	247.39%	298.11%	278.89%	243.56%	237.32%	203.18%	183.67%	141.45%
Total pension plan's fiduciary net position	\$ 8,565,652,000	\$ 7,027,327,000	\$ 7,159,921,000	\$ 7,018,963,000	\$ 6,687,237,095	\$ 6,141,394,419	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$ 14,941,437,000	\$ 14,697,244,000	\$ 14,192,966,000	\$ 13,109,268,000	\$ 12,540,544,538	\$ 11,065,012,656	\$ 10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%	66.80%

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

Note: Please read Note 7 in the notes to financial statements regarding detailed information on HWEA's pension plan. The County Retirement System measurement date is twelve months prior to HWEA's financial statements; the 2022 measurement date was June 30, 2021, and the 2021 measurement date was June 30, 2020.

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)
SCHEDULE OF HWEA'S PENSION CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 999,232	\$ 852,565	\$ 725,770	\$ 535,347	\$ 464,785	\$ 464,029	\$ 394,384	\$ 365,433	\$ 371,486
Contributions in relation to the statutorily required contributions	<u>(999,232)</u>	<u>(852,565)</u>	<u>(725,770)</u>	<u>(535,347)</u>	<u>(464,785)</u>	<u>(464,029)</u>	<u>(394,384)</u>	<u>(365,433)</u>	<u>(371,486)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HWEA's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
HWEA's covered payroll	\$ 4,720,038	\$ 4,417,434	\$ 3,760,467	\$ 3,299,769	\$ 3,256,186	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
Contributions as a percentage of covered payroll	21.17%	19.30%	19.30%	16.22%	14.27%	13.83%	12.60%	13.21%	14.17%

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

Note: Please read Note 7 in the notes to financial statements regarding detailed information on HWEA's pension plan.

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)
SCHEDULE OF HWEA'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Nonhazardous:</u>					
HWEA's proportion of the net OPEB liability	0.171362%	0.146119%	0.130814%	0.130217%	0.136035%
HWEA's proportionate share of the net OPEB liability	\$ 3,280,640	\$ 3,528,329	\$ 2,200,233	\$ 2,311,977	\$ 2,734,769
HWEA's covered payroll	\$ 4,417,434	\$ 3,760,467	\$ 3,299,769	\$ 3,256,186	\$ 3,355,136
HWEA's proportionate share of the net OPEB liability as a percentage of its covered payroll	74.27%	93.83%	66.68%	71.00%	81.51%
Total plan fiduciary net position	\$ 3,246,801,000	\$ 2,581,613,000	\$ 2,569,511,000	\$ 2,414,126,000	\$ 2,212,535,662
Total OPEB liability	\$ 5,161,251,000	\$ 4,996,309,000	\$ 4,251,466,000	\$ 4,189,606,000	\$ 4,222,877,716
Total plan fiduciary net position as a percentage of the total OPEB liability	62.91%	51.67%	60.44%	57.62%	52.39%

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

Note: Please read Note 8 in the notes to financial statements regarding detailed information on HWEA's OPEB plan. The County Employees Retirement System measurement date is twelve months prior to HWEA's financial statements; the 2022 measurement date was June 30, 2021, and the 2021 measurement date was June 30, 2020.

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A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
SCHEDULE OF HWEA'S OPEB CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 272,818	\$ 210,270	\$ 178,998	\$ 173,608	\$ 154,929
Contributions in relation to the statutorily required contributions	<u>(272,818)</u>	<u>(210,270)</u>	<u>(178,998)</u>	<u>(173,608)</u>	<u>(154,929)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HWEA's contributions as a percentage of statutorily required contribution for OPEB	100.00%	100.00%	100.00%	100.00%	100.00%
HWEA's covered payroll	\$ 4,720,038	\$ 4,417,434	\$ 3,760,467	\$ 3,299,769	\$ 3,256,186
Contributions as a percentage of covered payroll	5.78%	4.76%	4.76%	5.26%	4.76%

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

Note: Please read Note 8 in the notes to financial statements regarding detailed information on HWEA's OPEB plan.

Supporting Information

SCHEDULE 1

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, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Hopkinsville			Pembroke		Crofton		Oak Grove		Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Water	Sewer	
Current assets										
Cash and cash equivalents										
Petty cash and change fund	\$ 1,000	\$ 1,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Health claims fund	154,572	154,572	-	-	-	-	-	-	-	309,144
Employee reimbursement fund	21,349	-	-	-	-	-	-	-	-	21,349
Operation and maintenance fund	(450,588)	5,862,656	270,028	171,086	64,600	225,917	234,082	(202,559)	(202,559)	6,175,222
Total cash and cash equivalents	(273,667)	6,018,228	270,028	171,086	64,600	225,917	234,082	(202,559)	(202,559)	6,507,715
Customer receivables, net of allowance	604,938	455,525	62,164	9,921	14,135	16,891	8,633	210,000	210,000	1,382,207
Inventory	427,713	21,149	-	-	-	-	-	-	-	448,862
Prepaid insurance	16,737	16,737	-	-	-	-	-	-	-	33,474
Accrued interest on note receivable	-	202	-	-	-	-	-	-	-	202
Inter-department receivable	-	-	-	-	-	-	-	-	-	-
Total current assets	775,721	6,511,841	332,192	181,007	78,735	242,808	242,715	7,441	7,441	8,372,460
Restricted assets										
Bond and interest redemption fund	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
Construction fund										
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
Equipment maintenance and replacement fund										
Cash and cash equivalents	1,075,374	1,075,374	-	-	-	-	-	-	-	2,150,748
Subtotal	1,075,374	1,075,374	-	-	-	-	-	-	-	2,150,748
Total restricted assets	\$ 1,075,374	\$ 1,075,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,150,748

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, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, (continued)

	Hopkinsville			Pembroke		Crofton		Oak Grove		Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Water	Sewer	
Property, plant and equipment										
Property and plant	\$ 93,982,046	\$ 76,715,407	\$ 6,013,908	\$ 835,256	\$ 604,129	\$ 1,121,810	\$ 1,125,835	\$ 10,125,818	\$ 10,125,818	\$ 190,524,209
General plant	1,733,080	2,283,830	-	5,667	-	-	-	675,138	675,138	4,697,715
Unclassified plant	377,713	27,459,805	-	-	-	-	-	-	-	27,837,518
Less accumulated depreciation	96,092,839	106,459,042	6,013,908	840,923	604,129	1,121,810	1,125,835	10,800,956	10,800,956	223,059,442
	40,430,264	47,504,679	308,078	410,313	228,269	496,569	748,755	3,961,879	3,961,879	94,088,806
Net property, plant and equipment	55,662,575	58,954,363	5,705,830	430,610	375,860	625,241	377,080	6,839,077	6,839,077	128,970,636
Note receivable										
Receivable - Hopk Ind. Fdn.	-	80,761	-	-	-	-	-	-	-	80,761
Other receivables										
Other receivable - USACE	1,340,675	-	-	-	-	-	-	-	-	1,340,675
Total notes and other receivables	1,340,675	80,761	-	-	-	-	-	-	-	1,421,436
Total assets	58,854,345	66,622,339	6,038,022	611,617	454,595	868,049	619,795	6,846,518	6,846,518	140,915,280
Deferred outflows of resources										
Deferred outflows from pension	1,319,761	1,530,664	-	-	-	-	-	-	-	2,850,425
Deferred outflows from OPEB	1,013,205	1,175,120	-	-	-	-	-	-	-	2,188,325
Deferred refunding costs	221,610	-	-	-	-	-	-	10,743	10,743	232,353
Total deferred outflows of resources	2,554,576	2,705,784	-	-	-	-	-	10,743	10,743	5,271,103
Total assets and deferred outflows of resources	\$ 61,408,921	\$ 69,328,123	\$ 6,038,022	\$ 611,617	\$ 454,595	\$ 868,049	\$ 619,795	\$ 6,857,261	\$ 6,857,261	\$ 146,186,383

**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, 2022**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Hopkinsville			Pembroke		Crofton		Oak Grove		Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Water	Sewer	
Current liabilities										
State Revolving Fund loans, current portion of long-term debt	\$ 1,104,498	\$ 1,273,660	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328,492	\$ 2,706,650
Payable to City of Hopkinsville, current portion of long-term debt	1,907,500	-	70,000	-	-	-	-	-	130,000	2,107,500
Payable to City of Hopkinsville, PILOT	29,685	40,827	11,138	-	-	-	-	-	-	81,650
Customer deposits	119,092	-	-	-	-	-	-	-	-	119,092
Accrued interest	110,895	40,373	11,886	-	-	-	-	-	7,645	170,799
Construction retainage payable	-	277,895	-	-	-	-	-	-	-	277,895
Accounts payable	354,099	237,781	-	781	-	802	-	-	-	593,463
Construction contracts payable	3,113	121,595	-	-	-	-	-	-	4,058	128,766
Accrued salaries	80,332	91,095	-	-	-	-	-	-	-	171,427
Accrued compensated absences	126,057	158,993	-	-	-	-	-	-	-	285,050
Inter-department payable	-	-	-	-	-	-	-	-	-	-
Total current liabilities	3,835,271	2,242,219	93,024	781	-	802	-	802	470,195	6,642,292
Long-term debt										
State Revolving Fund loans, net of current portion	12,068,067	36,867,522	-	-	-	-	-	-	4,922,328	53,857,917
Payable to City of Hopkinsville, net of current portion	9,320,468	-	1,370,444	-	-	-	-	-	652,983	11,343,895
Net pension liability	5,059,817	5,868,405	-	-	-	-	-	-	-	10,928,222
Net OPEB liability	1,518,951	1,761,689	-	-	-	-	-	-	-	3,280,640
Compensated absences, net of current portion	141,222	152,363	-	-	-	-	-	-	-	293,585
Total long-term debt	28,108,525	44,649,979	1,370,444	-	-	-	-	-	5,575,311	79,704,259
Total liabilities	31,943,796	46,892,198	1,463,468	781	-	802	-	802	6,045,506	86,346,551
Deferred inflows of resources										
Deferred revenue - USACE	4,169,110	-	-	-	-	-	-	-	-	4,169,110
Deferred inflows from pension	723,499	839,116	-	-	-	-	-	-	-	1,562,615
Deferred inflows from OPEB	711,498	825,200	-	-	-	-	-	-	-	1,536,698
Total deferred inflows of resources	5,604,107	1,664,316	-	-	-	-	-	-	-	7,268,423
Net position										
Net investment in capital assets	31,483,652	20,535,286	4,265,386	430,610	375,860	625,241	377,080	816,017	816,017	58,909,132
Restricted										
Equipment maintenance and replacement	1,075,374	1,075,374	-	-	-	-	-	-	-	2,150,748
Unrestricted (deficit)	(8,698,008)	(839,051)	309,168	180,226	78,735	242,006	242,715	(4,262)	(4,262)	(8,488,471)
Total net position	23,861,018	20,771,609	4,574,554	610,836	454,595	867,247	619,795	811,755	811,755	52,571,409
Total liabilities, deferred inflows of resources, and net position	\$ 61,408,921	\$ 69,328,123	\$ 6,038,022	\$ 611,617	\$ 454,595	\$ 868,049	\$ 619,795	\$ 6,857,261	\$ 6,857,261	\$ 146,186,383

SCHEDULE 1

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, 2022

	Hopkinsville			Pembroke			Crofton			Oak Grove		Totals
	Water	Sewer	Gas	Water	Sewer	Gas	Water	Sewer	Gas	Water	Sewer	
Operating revenues	\$ 8,736,887	\$ 8,992,274	\$ 831,935	\$ 120,485	\$ 189,658		\$ 201,553	\$ 102,521		\$ 2,323,774	\$ 21,499,087	
Operating expenses												
Water source of supply	579,730	-	-	-	-	-	-	-	-	-	579,730	
Water purification	1,801,906	-	-	410	-	-	19,957	-	-	-	1,822,273	
Water distribution	1,077,667	-	-	55,199	-	-	80,310	-	-	-	1,213,176	
Wastewater treatment plant	-	1,948,785	-	-	8,367	-	-	12,787	-	1,270,797	3,240,736	
Wastewater mains and laterals	-	1,361,634	-	-	55,717	-	-	41,153	-	7,990	1,466,494	
Natural gas	-	-	516,800	-	-	-	-	-	-	-	516,800	
Administrative and general	2,446,185	2,623,428	-	349	414	-	242	132	-	100,815	5,171,565	
Technical services	325,802	289,517	-	-	-	-	-	-	-	-	615,319	
Depreciation	2,302,208	2,301,274	136,309	36,187	41,444		48,248	24,500		400,943	5,291,113	
Total operating expenses	8,533,498	8,524,638	653,109	92,145	105,942		148,757	78,572		1,780,545	19,917,206	
Operating income	203,389	467,636	178,826	28,340	83,716		52,796	23,949		543,229	1,581,881	
Nonoperating revenues (expenses)												
Interest revenue	95,500	37,520	-	-	-	-	-	-	-	-	133,020	
Gain (loss) on sale of property, plant and equipment	(4,539)	2,262	-	(132)	-	-	(2,577)	-	-	(8,103)	(13,089)	
Amortization of deferred refunding costs	(63,317)	-	-	-	-	-	-	-	-	(1,432)	(64,749)	
Interest expense	(548,909)	(438,136)	(47,630)	-	-	-	-	-	-	(145,148)	(1,179,823)	
Total nonoperating revenues (expenses)	(521,265)	(398,354)	(47,630)	(132)	-	-	(2,577)	-	-	(154,683)	(1,124,641)	
Income (loss) before capital contributions, transfers, and special item	(317,876)	69,282	131,196	28,208	83,716		50,219	23,949		388,546	457,240	
Capital contributions												
Capital assets contributed by developers	199,775	-	-	-	-	-	-	-	-	-	199,775	
Grant income	-	-	-	-	-	-	-	-	-	-	-	
Transfers (to) from												
Operating transfers in (out)	(1,038,122)	1,477,061	(382,133)	(43,488)	(39,342)		(50,414)	(5,326)		81,764	-	
Change in net position	(1,156,223)	1,546,343	(250,937)	(15,280)	44,374		(195)	18,623		470,310	657,015	
Net position - beginning of year	25,017,241	19,225,266	4,825,491	626,116	410,221		867,442	601,172		341,445	51,914,394	
Net position - end of year	\$ 23,861,018	\$ 20,771,609	\$ 4,574,554	\$ 610,836	\$ 454,595		\$ 867,247	\$ 619,795		\$ 811,755	\$ 52,571,409	

SCHEDULE 1

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, 2022

Descriptions	ASSETS					ACCUMULATED DEPRECIATION					Depreciated values June 30, 2022	
	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022		
WATER:												
Land	\$ 1,230,391	\$ -	\$ -	\$ -	\$ 1,230,391	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,230,391
Structures	3,126,072	14,463	2,608	-	3,137,927	1,909,049	75,824	1,782	-	1,983,091	-	1,154,836
Elevated tanks	5,305,335	8,775	213,532	-	5,100,578	2,606,223	159,195	213,532	-	2,551,886	-	2,548,692
Transmission mains	196,596	-	-	-	196,596	196,596	-	-	-	196,596	-	-
Distribution mains	26,800,604	172,890	-	-	26,973,494	10,571,967	599,203	-	-	11,171,170	-	15,802,324
Services	3,357,407	237,380	-	-	3,594,787	1,882,389	71,297	-	-	1,953,686	-	1,641,101
Meters and installation	2,157,620	276,685	522,319	-	1,911,986	1,576,963	116,087	522,319	-	1,170,731	-	741,255
Hydrants	1,132,543	6,754	-	-	1,139,297	621,754	18,859	-	-	640,613	-	498,684
Purification structures	17,774,911	-	5,069	-	17,769,842	8,507,261	726,134	2,999	-	9,230,396	-	8,539,446
Purification equipment	4,830,148	192,890	-	-	5,023,038	4,679,601	40,786	-	-	4,720,387	-	302,651
Electric pumping equipment	276,966	10,019	-	-	286,985	228,792	3,589	-	-	232,381	-	54,604
Quarry - raw water supply	29,542,573	31,618	-	-	29,574,191	5,685,525	428,372	-	-	6,113,897	-	23,460,294
Total water plant	95,731,166	951,474	743,528	-	95,939,112	38,466,120	2,239,346	740,632	-	39,964,834	-	55,974,278
General												
Transportation equipment	655,396	-	-	-	655,396	444,940	74,746	-	-	519,686	-	135,710
Tractors and backhoes	259,750	-	-	-	259,750	207,682	17,924	-	-	225,606	-	34,144
General equipment	533,519	14,000	5,187	-	542,332	389,816	33,787	3,544	-	420,059	-	122,273
Office furniture and fixtures	96,974	-	22,474	-	74,500	67,903	8,623	22,474	-	54,052	-	20,448
Two-way radio equipment	6,712	-	-	-	6,712	3,643	668	-	-	4,311	-	2,401
Computer equipment	188,523	30,594	19,060	-	200,057	156,112	11,546	19,060	-	148,598	-	51,459
Total general plant	1,740,874	44,594	46,721	-	1,738,747	1,270,096	147,294	45,078	-	1,372,312	-	366,435
Unclassified plant												
Construction in progress	286,442	111,271	-	-	377,713	-	-	-	-	-	-	377,713
Total water plant	\$ 97,738,482	\$ 1,107,339	\$ 790,249	\$ -	\$ 98,055,572	\$ 39,736,216	\$ 2,386,640	\$ 785,710	\$ -	\$ 41,337,146	\$ -	\$ 56,718,426

**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, 2022**

Descriptions	ASSETS					ACCUMULATED DEPRECIATION					Depreciated values June 30, 2022	
	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022		
SEWERAGE:												
Land	\$ 341,449	\$ -	\$ -	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	4,390,866	35,634	32,780	-	4,393,720	2,155,770	169,968	30,822	-	2,294,916	-	2,098,804
Wastewater treatment plants												
Northside	8,312,249	-	-	-	8,312,249	7,992,581	209,127	-	-	8,201,708	-	110,541
Hammond-Wood	11,862,835	-	-	-	11,862,835	10,481,013	472,484	-	-	10,953,497	-	909,338
Machinery and equipment	2,622,456	60,453	2,392,950	-	289,959	2,583,801	22,876	2,392,950	-	213,727	-	76,232
Pumping stations	16,601,854	113,786	379,859	-	16,335,781	6,324,919	727,480	369,714	-	6,682,685	-	9,653,096
Mains and laterals	46,849,723	185,473	-	-	47,035,196	21,419,169	902,498	-	-	22,321,667	-	24,713,529
Total sewerage plant	90,981,432	395,346	2,805,589	-	88,571,189	50,957,253	2,504,433	2,793,486	-	50,668,200	-	37,902,989
General												
Transportation equipment	820,848	-	50,805	-	770,043	630,121	64,407	50,805	-	643,723	-	126,320
Tractors and backhoes	178,402	-	-	-	178,402	130,064	17,758	-	-	147,822	-	30,580
General equipment	1,928,102	19,498	214,144	-	1,733,456	857,112	158,031	210,503	-	804,640	-	928,816
Office furniture and fixtures	115,047	9,913	31,153	-	93,807	71,216	11,218	31,153	-	51,281	-	42,526
Two-way radio equipment	7,617	1,534	-	-	9,151	4,502	765	-	-	5,267	-	3,884
Computer equipment	152,290	30,595	8,776	-	174,109	119,879	11,546	8,776	-	122,649	-	51,460
Total general plant	3,202,306	61,540	304,878	-	2,958,968	1,812,894	263,725	301,237	-	1,775,382	-	1,183,586
Unclassified plant												
Construction in progress	12,840,421	14,619,384	-	-	27,459,805	-	-	-	-	-	-	27,459,805
Total sewer plant	107,024,159	15,076,270	3,110,467	-	118,989,962	52,770,147	2,768,158	3,094,723	-	52,443,582	-	66,546,380
NATURAL GAS:												
Distribution mains	5,884,027	-	-	-	5,884,027	156,248	120,256	-	-	276,504	-	5,607,523
Meters and installation	97,150	19,113	-	-	116,263	14,613	13,329	-	-	27,942	-	88,321
Transportation equipment	13,618	-	-	-	13,618	908	2,724	-	-	3,632	-	9,986
Total	5,994,795	19,113	-	-	6,013,908	171,769	136,309	-	-	308,078	-	5,705,830
Unclassified												
Construction in progress	-	-	-	-	-	-	-	-	-	-	-	-
Total natural gas	5,994,795	19,113	-	-	6,013,908	171,769	136,309	-	-	308,078	-	5,705,830

SCHEDULE 4

**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, 2022**

Bonds Due Fiscal Year	2010B	2013B	2014B	2014C	2015A	Total Debt Service
2023	\$ 262,659	\$ 252,113	\$ 116,493	\$ 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	253,478	117,644	89,225	-	721,486
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	-	251,788	117,325	-	-	369,113
2032	-	251,888	119,256	-	-	371,144
2033	-	251,538	115,931	-	-	367,469
2034	-	255,622	117,518	-	-	373,140
2035	-	-	118,865	-	-	118,865
2036	-	-	115,059	-	-	115,059
2037	-	-	116,162	-	-	116,162
2038	-	-	117,090	-	-	117,090
	<u>\$ 1,955,556</u>	<u>\$ 3,035,873</u>	<u>\$ 1,865,945</u>	<u>\$ 866,163</u>	<u>\$ 7,146,500</u>	<u>\$ 14,870,037</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, 2022, was \$2,573,140. 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, 2022 and 2021

	2022		2021	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Water Source of Supply				
Supplies	\$ 1,717	0.01%	\$ 3,065	0.02%
Utilities	480,724	2.24%	465,286	2.34%
Grounds and maintenance	97,289	0.45%	7,768	0.04%
	579,730	2.70%	476,119	2.39%
Total water source of supply				
	579,730	2.70%	476,119	2.39%
Water Purification				
Labor	687,609	3.20%	688,391	3.46%
Employee benefits	368,147	1.71%	357,702	1.80%
Chemicals	241,908	1.13%	205,377	1.03%
Maintenance to structures	11,259	0.05%	1,942	0.01%
Maintenance to equipment	36,045	0.17%	32,999	0.17%
Supplies	12,328	0.06%	12,946	0.07%
Maintenance to reservoirs and tanks	3,404	0.02%	18,402	0.09%
Utilities	321,957	1.50%	306,567	1.54%
Training and education	7,207	0.03%	2,105	0.01%
Laboratory work	20,439	0.10%	26,844	0.14%
Laboratory supplies and expense	40,376	0.19%	31,332	0.16%
Emergency generators	9,460	0.04%	15,778	0.08%
Grounds and maintenance	22,548	0.10%	12,258	0.06%
Professional services	4,226	0.02%	4,511	0.02%
Transportation expense	26,838	0.12%	22,174	0.11%
Small tools	8,522	0.04%	875	0.00%
	1,822,273	8.48%	1,740,203	8.75%
Total water purification				
	1,822,273	8.48%	1,740,203	8.75%
Water Distribution				
Labor	554,964	2.58%	496,299	2.50%
Employee benefits	314,442	1.46%	287,394	1.45%
Supplies	174,646	0.81%	170,264	0.86%
Repairs to distribution mains	70,684	0.33%	45,062	0.23%
Repairs to fire hydrants	-	0.00%	1,155	0.01%
Repairs to equipment	23,295	0.11%	13,128	0.07%
Transportation expense	37,949	0.18%	31,186	0.16%
Grounds and maintenance	9,957	0.05%	11,136	0.06%
Utilities	18,214	0.08%	14,309	0.07%
Training, education and licenses	4,064	0.02%	524	0.00%
Small tools	4,961	0.02%	10,820	0.05%
	1,213,176	5.64%	1,081,277	5.44%
Total water distribution				
	1,213,176	5.64%	1,081,277	5.44%
Subtotal carried forward				
	\$ 3,615,179	16.82%	\$ 3,297,599	16.59%

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, 2022 and 2021

	<u>2022</u>		<u>2021</u>	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	\$ 3,615,179	16.82%	\$ 3,297,599	16.59%
Water Technical Services				
Labor	200,792	0.93%	181,837	0.91%
Employee benefits	114,848	0.53%	97,595	0.49%
Supplies	6,931	0.03%	10,075	0.05%
Training, education and licenses	501	0.00%	1,250	0.01%
Transportation expense	2,730	0.01%	1,675	0.01%
Total water technical services	<u>325,802</u>	<u>1.52%</u>	<u>292,432</u>	<u>1.47%</u>
Water Administrative and General				
Office salaries	463,453	2.16%	415,381	2.09%
Customer service salaries	373,370	1.74%	347,533	1.75%
Employee benefits	966,260	4.49%	1,068,999	5.38%
Office supplies	45,233	0.21%	55,874	0.28%
Postage	16,992	0.08%	15,897	0.08%
Telephone	55,205	0.26%	26,154	0.13%
Insurance and bonds	199,151	0.93%	185,454	0.93%
Professional services	121,976	0.57%	123,058	0.62%
Safety program and drug screening	23,259	0.11%	20,627	0.10%
Office building maintenance	13,949	0.06%	8,869	0.04%
Bad debts, net	19,398	0.09%	49,699	0.25%
Training, education and licenses	4,130	0.02%	7,155	0.04%
Transportation expense	16,716	0.08%	13,956	0.07%
REZ and CCWD rebate payments	1,198	0.01%	837	0.00%
Utilities	17,627	0.08%	16,816	0.08%
Meetings and events	13,003	0.06%	8,760	0.04%
Advertising, donations, and memberships	90,197	0.42%	64,131	0.32%
Miscellaneous	5,660	0.03%	28,785	0.14%
Total water administrative and general	<u>2,446,777</u>	<u>11.38%</u>	<u>2,457,985</u>	<u>12.36%</u>
Total water operating expense other than depreciation	<u>\$ 6,387,758</u>	<u>29.71%</u>	<u>\$ 6,048,016</u>	<u>30.42%</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, 2022 and 2021

	2022		2021	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Wastewater Treatment Plant				
Labor	\$ 780,905	3.63%	\$ 890,053	4.48%
Employee benefits	408,452	1.90%	482,036	2.42%
Chemicals and materials	256,865	1.19%	210,993	1.06%
Supplies and tools	42,947	0.20%	37,686	0.19%
Lights, power, water, and fuel oil	624,428	2.90%	613,054	3.08%
Transportation expense	20,095	0.09%	25,930	0.13%
Repairs - machinery and equipment	138,093	0.64%	110,052	0.55%
Grounds and maintenance	62,409	0.29%	26,331	0.13%
Maintenance of pump stations	252,853	1.18%	290,329	1.46%
Emergency generators	17,429	0.08%	30,607	0.15%
Laboratory work	35,187	0.16%	31,428	0.16%
Laboratory supplies and expense	17,431	0.08%	22,643	0.11%
Sludge disposal	555,595	2.58%	489,152	2.46%
Training, education and licenses	3,533	0.02%	3,807	0.02%
Professional services	652	0.00%	652	0.00%
Billing and collection expense	23,862	0.11%	23,216	0.12%
	3,240,736	15.07%	3,287,969	16.54%
Wastewater Mains and Laterals				
Labor	741,897	3.45%	569,159	2.86%
Employee benefits	435,852	2.03%	285,084	1.43%
Supplies and tools	132,560	0.62%	105,967	0.53%
Repairs - mains and laterals	47,306	0.22%	29,652	0.15%
Repairs - truck and sewerage equipment	17,795	0.08%	29,816	0.15%
Transportation expense	66,600	0.31%	32,378	0.16%
Utilities	14,294	0.07%	14,308	0.07%
Grounds and maintenance	7,813	0.04%	36,763	0.18%
Training, education and licenses	1,777	0.01%	4,146	0.02%
Professional services	600	0.00%	600	0.00%
Developer rebates	-	0.00%	2,020	0.01%
	1,466,494	6.82%	1,109,893	5.58%
Wastewater Technical Services				
Labor	278,134	1.29%	247,612	1.25%
Supplies	8,152	0.04%	10,231	0.05%
Training, education and licenses	501	0.00%	1,250	0.01%
Transportation expense	2,730	0.01%	1,675	0.01%
	289,517	1.35%	260,768	1.31%
Total wastewater technical services	289,517	1.35%	260,768	1.31%
Subtotal carried forward	\$ 4,996,747	23.24%	\$ 4,658,630	23.43%

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, 2022 and 2021

	<u>2022</u>		<u>2021</u>	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	\$ 4,996,747	23.24%	\$ 4,658,630	23.43%
Sewerage Administrative and General				
Office salaries	463,452	2.16%	415,380	2.09%
Customer service salaries	373,371	1.74%	347,534	1.75%
Employee benefits	1,130,814	5.26%	1,256,924	6.32%
Office supplies	44,307	0.21%	42,607	0.21%
Postage	17,005	0.08%	15,897	0.08%
Telephone	55,275	0.26%	26,153	0.13%
Insurance and bonds	199,151	0.93%	185,454	0.93%
Professional services	118,998	0.55%	116,635	0.59%
Office building maintenance	13,948	0.06%	8,677	0.04%
Bad debts, net	125,201	0.58%	70,243	0.35%
Training, education and licenses	3,893	0.02%	7,131	0.04%
Safety program and drug screening	37,724	0.18%	31,855	0.16%
Transportation expense	16,668	0.08%	13,955	0.07%
Rez rebate payments	375	0.00%	-	0.00%
Utilities	17,626	0.08%	16,816	0.08%
Meetings and events	13,104	0.06%	8,652	0.04%
Advertising, donations, and memberships	90,197	0.42%	64,131	0.32%
Miscellaneous	3,679	0.02%	30,544	0.15%
Total sewer administrative and general	<u>2,724,788</u>	<u>12.67%</u>	<u>2,658,588</u>	<u>13.37%</u>
Total sewerage operating expense other than depreciation	<u>\$ 7,721,535</u>	<u>35.92%</u>	<u>\$ 7,317,218</u>	<u>36.81%</u>
Natural Gas				
Gas purchased	\$ 446,019	2.07%	\$ 250,998	1.26%
Labor	29,151	0.14%	23,167	0.12%
Employee benefits	10,004	0.05%	7,285	0.04%
Maintenance to mains and equipment	3,641	0.02%	4,326	0.02%
Supplies	3,803	0.02%	11,024	0.06%
Postage	55	0.00%	-	0.00%
Telephone and utilities	822	0.00%	698	0.00%
Training, education and licenses	18,441	0.09%	14,771	0.07%
Professional services	1,032	0.00%	1,828	0.01%
Insurance	2,496	0.01%	2,502	0.01%
Advertising, donations, and memberships	19	0.00%	-	0.00%
Small tools	1,317	0.01%	5,296	0.03%
Total natural gas	<u>516,800</u>	<u>2.40%</u>	<u>321,895</u>	<u>1.62%</u>
Total gas operating expense other than depreciation	<u>\$ 516,800</u>	<u>2.40%</u>	<u>\$ 321,895</u>	<u>1.62%</u>

Single Audit Section

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor and Number</u>	<u>Pass-Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>State Revolving Funds Loan:</u>				
Clean Water State Revolving Fund Cluster				
United States Environmental Protection Agency				
Capitalization Grants for Clean Water State Revolving Funds	66.458	Kentucky Infrastructure Authority - Loan Number: A19-003	\$ -	\$ 935,515 *
Total United States Environmental Protection Agency			-	935,515
Total Clean Water State Revolving Fund Cluster			<u>-</u>	<u>935,515</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 935,515</u>

*Denotes major program

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2022**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE B - SUBRECIPIENTS

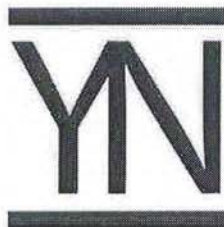
The Hopkinsville Water Environment Authority did not provide any federal awards to subrecipients in the year ended June 30, 2022.

NOTE C – INDIRECT COST RATE

The Hopkinsville Water Environment Authority has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – LOAN BALANCES

At June 30, 2022 and 2021, the outstanding principal balance on the State Revolving Funds Loan A19-003 from the Kentucky Infrastructure totaled \$23,020,624 and \$8,813,511, respectively. For additional information, see Note 6, Long-term debt, in the notes to the financial statements.



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, 2022, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated December 8, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies in internal control may exist that have not been identified.

Report on Compliance and Other Matters

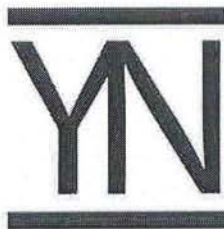
As part of obtaining reasonable assurance about whether HWEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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
December 8, 2022



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Hopkinsville Water Environment Authority's (HWEA), a component unit of the City of Hopkinsville, Kentucky, compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on HWEA's major federal program for the year ended June 30, 2022. HWEA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, HWEA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to HWEA's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HWEA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about HWEA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- ❑ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ❑ Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hopkinsville Water Environment Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- ❑ Obtain an understanding of HWEA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the HWEA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

York, Neel & Associates, LLP

Hopkinsville, Kentucky
December 8, 2022

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022**

Section I – Summary of Auditors’ Results

1. The independent auditors’ report expresses an unmodified opinion on whether the financial statements of the Hopkinsville Water Environment Authority were prepared in accordance with generally accepted accounting principles.
2. No significant deficiencies relating to the audit of the financial statements are reported. No material weaknesses relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the Hopkinsville Water Environment Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over the major federal award program was reported. No material weaknesses are reported.
5. The auditors’ report on compliance for the major federal award program for the Hopkinsville Water Environment Authority expresses an unmodified opinion on the major federal program.
6. There are no findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this schedule.
7. The program tested as a major program was:

Name	<u>CFDA</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458

8. The threshold used for distinguishing between Types A and B programs was \$750,000.
9. The Hopkinsville Water Environment Authority did not qualify to be audited as a low-risk auditee.

Section II – Findings – Financial Statements Audit

There are no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Awards Program

There are no findings or questioned costs related to the major federal program which are required to be reported in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021**

Section II – Findings – Financial Statements Audit

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.