

**HOPKINSVILLE WATER
ENVIRONMENT AUTHORITY**

REPORT ON AUDITS OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
DIRECTORY OF OFFICIALS
June 30, 2013**

COMMISSIONERS

**Elizabeth McCoy, Chairman
Calvin Givens, Vice Chairman
Jim Blair
Charles Turner
Paul Henson, Council Member**

ATTORNEY

J. Foster Cotthoff

PRESIDENT & CEO

Derrick W. Watson

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

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements –	
Exhibit A – Statement of Net Position	9
Exhibit B – Statement of Revenues, Expenses and Changes in Net Position	11
Exhibit C – Statement of Cash Flows	12
Notes to Financial Statements	14
Supporting Schedules–	
Schedules –	
1 - Combining Statement of Net Position	28
2 - Combining Statement of Revenues, Expenses and Changes in Net Position	31
3 - Summary of Property, Plant and Equipment	32
4 - Summary of Sinking Fund Requirements	34
5 - Schedule of Operating Expenses	35
Schedule of Expenditures of Federal Awards	39
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	42
Schedule of Findings and Questioned Costs	44
Summary Schedule of Prior Audit Findings	46



& CO. - HOPKINSVILLE LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

1113 BETHEL STREET
HOPKINSVILLE, KENTUCKY 42240
(270) 886-0206 - FAX (270) 886-0875

FIRM ID # 61-1313802

LEONARD F. ADCOCK, CPA
JOHN M. DeANGELIS, CPA
KERRY T. FORT, CPA

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority, Water and Wastewater Departments (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of HWEA, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hopkinsville Water Environment Authority's basic financial statements. The combining financial statements and other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2014, on our consideration of HWEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky
January 25, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hopkinsville Water Environment Authority Water and Wastewater Departments (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the fiscal years ending June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, and notes to the basic financial statements to enhance their understanding of financial performance.

FINANCIAL HIGHLIGHTS

- ❑ HWEA's total assets increased by \$1.87 million while total liabilities increased \$1.44 million resulting in total net position increasing approximately \$426 thousand over the course of the year's operations.
- ❑ HWEA's operating revenues increased 0.23% in 2013, while operating expenses in 2013 increased approximately 5.98% over operating expenses for 2012.
- ❑ Non-operating income increased \$25,726. The majority of the increase is due to larger gains on the sale of fixed assets.
- ❑ Interest expense on outstanding debt increased \$162,598, which is a result of an increase in long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Hopkinsville Water Environment Authority. 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 the Hopkinsville Water Environment Authority 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 and liabilities and 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 the current year'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 over the past year and can be used to determine profitability, credit worthiness, and whether HWEA has successfully recovered all its costs through its user fees and other charges.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

REQUIRED FINANCIAL STATEMENTS (cont.)

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

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 2013?" 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 the Authority and the changes in net position for the year. One can think of HWEA's net position – the difference between assets and liabilities – 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 consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET POSITION

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

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

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 8,835	\$ 9,435	\$ (600)	(6.36)%
Capital Assets	<u>103,396</u>	<u>100,926</u>	<u>2,470</u>	<u>2.45 %</u>
Total Assets	112,231	110,361	1,870	1.69 %
Long-term Debt Outstanding	63,434	61,378	2,056	3.35 %
Other Liabilities	<u>2,016</u>	<u>2,628</u>	<u>(612)</u>	<u>(23.29)%</u>
Total Liabilities	65,450	64,006	1,444	2.26 %
Net Investment in Capital Assets	39,084	38,069	1,015	2.67 %
Unrestricted	<u>7,697</u>	<u>8,286</u>	<u>(589)</u>	<u>(7.11)%</u>
Total Net Position	<u>\$46,781</u>	<u>\$46,355</u>	<u>\$ 426</u>	<u>0.92 %</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET POSITION (cont.)

As can be seen from the table above, net position increased \$426 thousand during 2013. The overall increase in net position is due, in part, to a significant increase in capital assets combined with a large increase in debt. The increase in capital assets is largely due to work done on decommissioning the Northside Wastewater Treatment Plant, work done on the Greenville Road and Cave Street sewer projects, rehabilitating four sewage pump stations, and the receipt of assets from Christian County Water District as part of a territory transfer. Draws on various loans from KIA toward construction projects caused the increase in long-term debt.

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

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 13,156	\$ 13,126	\$ 30	0.23 %
Non-operating Revenues	<u>59</u>	<u>33</u>	<u>26</u>	<u>78.79 %</u>
Total Revenues	13,215	13,159	56	0.43 %
Depreciation Expense	3,746	3,165	581	18.36 %
Other Operating Expenses	6,982	6,958	24	0.34 %
Interest Expense	1,635	1,473	162	11.00 %
Other Non-operating Expenses	<u>34</u>	<u>-</u>	<u>34</u>	<u>N/A</u>
Total Expenses	12,397	11,596	801	6.91 %
Income/(Loss) before Contributions				
Special Items, and Transfers	818	1,563	(745)	(47.66)%
Capital Contributions	83	110	(27)	(24.55)%
Special Item	<u>(475)</u>	<u>-</u>	<u>(475)</u>	<u>N/A</u>
Changes in Net Position	<u>426</u>	<u>1,673</u>	<u>(1,247)</u>	<u>(74.54)%</u>
Beginning Net Position	<u>46,355</u>	<u>44,682</u>	<u>1,673</u>	<u>3.74 %</u>
Ending Net Position	<u>\$ 46,781</u>	<u>\$ 46,355</u>	<u>\$ 426</u>	<u>0.92 %</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

BUDGETARY HIGHLIGHTS

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

**Table A-3
Budget vs. Actual
FY 2013
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating income	\$ 13,469	\$ 13,156	\$ (313)
Non-operating income	669	142	(527)
Operating expense & depreciation	(10,363)	(10,729)	(366)
Non-operating expense	<u>(1,646)</u>	<u>(2,143)</u>	<u>(497)</u>
Net Income	<u>\$ 2,129</u>	<u>\$ 426</u>	<u>\$ (1,703)</u>

More rainfall during the year (as it relates particularly to yard meters) is a factor for operating income being less than budgeted. Depreciation expense was more than budgeted due to a significant amount of fixed assets being placed into service during the year. The introduction of new debt relating to draws on various KIA loans resulted in more interest expense than was budgeted. The decommissioning of the Northside Waste Water Treatment Plant accounts for the vast majority of operating expenses being more than budgeted. Specifically, demolition costs of \$110,000 were incurred for the project, and losses totaling \$365,190 were a result of certain assets not being fully depreciated at the time of decommissioning.

CAPITAL ASSETS

At the end of fiscal year 2013, HWEA had \$166.0 million invested in capital assets as shown in Table A-4. During the year, various capital assets were purchased and placed into service. Among those assets placed into service was infrastructure transferred from the Christian County Water District to HWEA for a cost of \$403,938. This transfer to HWEA occurred in order to ensure a sufficient volume and availability of water for industrial, commercial and residential customers located in the transferred territory and also to ensure the availability of sanitary sewer services for those customers, as well.

Construction in Progress at June 30, 2013, consisted primarily of work done on various sewer projects including the rehabilitation of several sewage pumping stations, as well as work done on smaller construction projects, one of which is a study of the feasibility of installing natural gas lines.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

**Table A-4
Capital Assets**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Water	\$84,873,377	\$83,916,455	\$ 956,922	1.14%
Sewerage	<u>81,173,659</u>	<u>76,235,536</u>	<u>4,938,123</u>	<u>6.48%</u>
Sub-total	166,047,036	160,151,991	5,895,045	3.68%
Less: Accumulated Depreciation	<u>(62,651,010)</u>	<u>(59,226,229)</u>	<u>(3,424,781)</u>	<u>(5.78)%</u>
Net Property & Equipment	<u>\$103,396,026</u>	<u>\$100,925,762</u>	<u>\$ 2,470,264</u>	<u>2.45%</u>

DEBT ADMINISTRATION

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

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

More detailed information about all of HWEA's long-term liabilities is presented in Note 8 to the financial statements.

OTHER INFORMATION SIGNIFICANT TO OPERATIONS

A series of sewer rate increases were approved, and the first rate increase became effective on July 1, 2011. Additional sewer rate increases were effective July 1, 2012 and July 1, 2013. A subsequent sewer rate increase will go into effect on July 1, 2014. This increase will impact sewer revenues of HWEA for the coming year.

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.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENT OF NET POSITION
For the years ended June 30, 2013 and 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 5,314,306	\$ 5,846,622
Customer receivables	994,366	1,025,971
Inventory	255,595	337,353
Prepaid insurance	<u>118,008</u>	<u>-</u>
Total current assets	6,682,275	7,209,946
Restricted assets		
Cash and cash equivalents	1,429,127	1,422,283
Deferred charges	285,831	309,322
Notes receivable	423,025	451,312
Other receivables	15,055	42,473
Property, plant and equipment		
Property, plant and equipment	161,706,476	154,377,369
Unclassified plant - construction in progress, engineering fees, and other costs	4,340,560	5,774,622
Accumulated depreciation	<u>(62,651,010)</u>	<u>(59,226,229)</u>
Total assets	<u>\$ 112,231,339</u>	<u>\$ 110,361,098</u>

Continued

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENT OF NET POSITION (continued)
For the years ended June 30, 2013 and 2012**

LIABILITIES AND EQUITY

	2013	2012
Current liabilities		
Current portion of long-term debt	\$ 3,625,167	\$ 3,136,693
Current portion of capital lease obligation	-	1,843
Christian Co. Fiscal Court loan payable	-	199,083
City of Hopkinsville loan payable	109,293	-
Customer deposits	66,432	69,273
Accrued interest	263,637	275,167
Construction retainage payable	114,523	309,671
Accounts payable	476,860	474,528
Construction contracts payable	738,908	1,071,221
Accrued salaries and compensated absences	246,643	226,946
Total current liabilities	5,641,463	5,764,425
Long-term debt		
Revenue bonds payable (net of current portion)	21,816,228	23,293,909
KIA - loans payable (net of current portion)	36,292,911	33,037,991
KY Rural Finance loans payable (net of current portion)	1,637,000	1,730,500
City of Hopkinsville loan payable (net of current portion)	-	109,959
Compensated absences (net of current portion)	63,048	69,245
Total liabilities	65,450,650	64,006,029
Net position		
Net investment in capital assets	39,084,190	38,069,047
Unrestricted	7,696,499	8,286,022
Total net position	46,780,689	46,355,069
Total liabilities and net position	\$ 112,231,339	\$ 110,361,098

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues		
Charges for services (net of allowances of \$83,102 and \$64,018 for 2013 and 2012, respectively)	\$ 12,908,937	\$ 12,900,584
Other operating revenue	<u>247,290</u>	<u>225,948</u>
Total operating revenues	<u>13,156,227</u>	<u>13,126,532</u>
Operating expenses		
Water source of supply	392,985	386,808
Water purification	1,088,146	940,582
Water distribution	520,387	555,192
Sewerage plant	1,499,278	1,537,488
Sewerage mains and laterals	372,283	347,845
Administrative and general	2,914,077	2,998,504
Technical services	195,436	192,063
Depreciation	<u>3,746,347</u>	<u>3,165,374</u>
Total operating expenses	<u>10,728,939</u>	<u>10,123,856</u>
Income from operations	<u>2,427,288</u>	<u>3,002,676</u>
Non-operating revenues (expenses)		
Interest revenues	38,660	30,994
Gain on sale of fixed assets	20,402	2,342
Intergovernmental donation	(33,504)	-
Interest expense	<u>(1,635,232)</u>	<u>(1,472,634)</u>
Total non-operating revenues (expenses)	<u>(1,609,674)</u>	<u>(1,439,298)</u>
Income (loss) before contributions, special items, and operating transfers	817,614	1,563,378
Capital contributions (capital assets provided by developers)	83,196	109,971
Special item (decommissioning of Northside WWTP)	<u>(475,190)</u>	<u>-</u>
Change in net position	425,620	1,673,349
Net position - beginning of year	<u>46,355,069</u>	<u>44,681,720</u>
Net position - end of year	<u>\$ 46,780,689</u>	<u>\$ 46,355,069</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Received from customers	\$ 12,937,701	\$ 12,895,627
Paid to suppliers for goods and services	(3,626,747)	(3,727,629)
Paid to employees for services - including benefits	(3,376,263)	(3,310,086)
Other operating revenue	<u>247,290</u>	<u>225,948</u>
Net cash flows from operating activities	<u>6,181,981</u>	<u>6,083,860</u>
Cash flows from capital and related financing activities		
Acquisition of fixed assets	(7,169,571)	(6,771,271)
Proceeds from disposition of fixed assets	20,402	6,675
Proceeds of capital debt	5,478,367	10,345,538
Principal paid on capital debt	(3,537,565)	(3,688,030)
Interest paid on capital debt	<u>(1,593,451)</u>	<u>(1,417,828)</u>
Net cash provided (used) by capital and related financing activities	<u>(6,801,818)</u>	<u>(1,524,916)</u>
Cash flows from investing activities		
Collection of note receivable	55,705	141,902
Interest earned on investments	<u>38,660</u>	<u>30,994</u>
Net cash provided (used) by investing activities	<u>94,365</u>	<u>172,896</u>
Net increase (decrease) in cash and cash equivalents	(525,472)	4,731,840
Cash and cash equivalents at beginning of year (includes restricted assets of \$1,422,283 and \$1,467,198 for 2013 and 2012, respectively)	<u>7,268,905</u>	<u>2,537,065</u>
Cash and cash equivalents at end of year (includes restricted assets of \$1,429,127 and \$1,422,283 for 2013 and 2012, respectively)	<u>\$ 6,743,433</u>	<u>\$ 7,268,905</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, HOPKINSVILLE
STATEMENT OF CASH FLOWS (continued)
For the years ended June 30, 2013 and 2012**

	2013	2012
Reconciliation of Operating Income to Cash Flows from Operating Activities		
Cash flows from operating activities		
Income from operations	\$ 2,427,288	\$ 3,002,676
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	3,746,347	3,165,374
Change in assets and liabilities		
(Increase)/decrease in accounts receivable	31,605	(6,882)
(Increase)/decrease in inventory	81,758	(60,146)
(Increase)/decrease in prepaid expenses	(118,008)	-
Increase/(decrease) in accounts payable	2,332	(104,951)
Increase/(decrease) in customer deposits	(2,841)	1,925
Increase/(decrease) in accrued salaries and compensated absences	13,500	85,864
Net cash provided by operating activities	\$ 6,181,981	\$ 6,083,860
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the period for:		
Interest expense (net of \$134,155 and \$201,089 capitalized interest for 2013 and 2012, respectively)	\$ 1,593,451	\$ 1,417,828
Non-cash capital and related financing activities:		
Intergovernmental donation (transfer of land to Crofton)	33,504	-
Total non-cash capital and related financing activities	\$ 33,504	\$ -

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

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

b. Basis of accounting

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

The basic financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. 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 constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of accounting, continued

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

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

c. Separate accounting

On December 17, 1992, HWEA was approved for a low interest loan from the Kentucky Infrastructure Authority (KIA). Due to federal requirements under this loan program, HWEA as of July 1, 1993, began accounting for the water and sewer systems separately. (See Supplemental Schedules and note disclosure number 19 for information on segment reporting.)

d. Cash and cash equivalents, deposits and investments

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

Kentucky Revised Statute 66.480 permits HWEA to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposits, 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 purposes of the statement of cash flows, HWEA considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

e. Inventories

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

f. Prepaid expenses

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

g. Restricted assets

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

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

	2013	2012
Bond and interest redemption fund	\$ 37,082	\$ 36,921
Construction fund	1,366,525	1,359,888
Unemployment fund	25,520	25,474
Total restricted funds	\$ 1,429,127	\$ 1,422,283

h. Fixed assets

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives. 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. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the constructed asset, net of interest earned on the invested proceeds over the same period.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

i. Compensated absences

HWEA accrues vacation and sick leave 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 accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30, 2013.

j. Long-term debt

Bond discounts and issuance costs are deferred and reported on the statement of net position. Bond issuance costs are reported as deferred charges, and bond discounts are netted against the corresponding liability on the statement of net position. These costs are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. HWEA issued new bonds during 2010, the proceeds of which were used to provide funds for the Moss Water Treatment Plant expansion. Proceeds of bonds issued in 2005 and 2002 were used to refund older bonds. Proceeds from the 2005 issue were also used to provide funds for the Lake Barkley Raw Water Project. GASBS No. 23 requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense.

k. Capital Contributions

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

l. Net Position

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

m. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

2. DEPOSITS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a 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. State law requires all of HWEA's funds to be fully insured or collateralized. At year-end, the carrying amount of HWEA's deposits was \$6,741,527 and the bank balance was \$6,677,785. Of the bank balance, \$623,362 was covered by federal depository insurance with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2013, none of HWEA's deposited funds were exposed to custodial credit risk.

3. RECEIVABLES

Net receivables include the following:

	<u>2013</u>	<u>2012</u>
Customer accounts receivable	\$ 983,867	\$1,006,168
Allowance for uncollectible	-	-
Miscellaneous receivables	<u>10,499</u>	<u>19,803</u>
Total receivables	<u>\$ 994,366</u>	<u>\$1,025,971</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.

HWEA has a note receivable from the Christian County Board of Education for installation of sewer lines, due in annual installments of \$32,049 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance of this receivable was \$180,742 and \$209,029 at June 30, 2013 and 2012, respectively.

HWEA also has a note receivable from the Hopkinsville Industrial Foundation for the installation of sewer lines in the industrial park, due in semi-annual installments including interest at 1.0%, due April 1, 2027. However, upon request, HWEA made the decision to allow the Hopkinsville Industrial Foundation to make interest only payments for a twelve month period; therefore, the balance on this note is unchanged from prior year. The balance of this receivable was \$242,283 and \$242,283 at June 30, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Accounts charged off in current period	\$ 72,730	\$ 58,504
Recovery of accounts previously charged off	<u>(10,685)</u>	<u>(9,344)</u>
Net bad debts	<u>\$ 62,045</u>	<u>\$ 49,160</u>

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

4. INVENTORY

Inventory as of June 30, 2013 and 2012, consisted of materials and supplies with a cost of \$255,595 and \$337,353, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at June 30, 2013, is as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,605,344	\$ -	\$ 33,504	\$ 1,571,840
Construction in progress	5,630,120	5,293,214	6,582,774	4,340,560
Capital Assets Being Depreciated:				
Structures and improvements	142,244,182	7,415,180	554,470	149,104,892
Equipment	9,883,499	371,435	96,628	10,158,306
Vehicles	788,846	118,250	35,658	871,438
Less Accumulated Depreciation:				
Structures and improvements	50,745,165	3,295,157	197,840	53,842,482
Equipment	7,931,346	407,372	88,068	8,250,650
Vehicles	<u>549,718</u>	<u>43,818</u>	<u>35,658</u>	<u>557,878</u>
Total	<u>\$100,925,762</u>	<u>\$ 9,451,732</u>	<u>\$ 6,981,468</u>	<u>\$103,396,026</u>

Depreciation expense (including amortization of capitalized assets) for the years ended June 30, 2013 and June 30, 2012 was \$3,746,347 and \$3,165,374, respectively.

6. DEFERRED CHARGES

The bond issuance costs and discounts associated with the issuance of the revenue bonds payable are being amortized on the straight-line method over the term of the bonds. Amortization of the bond issuance costs charged to operations during the year was \$23,492. Amortization of the discount charged to operations during the year was \$29,819.

7. SHORT-TERM DEBT

On March 16, 2010, HWEA entered into an agreement with the Christian County Fiscal Court for a loan up to \$500,000 to help expand sewer capacity in its Oak Grove division in order to meet the demands of potential retail and other developments in Oak Grove. This loan was non-interest bearing and was to be paid off with future loan funding from the Kentucky Infrastructure Authority. This loan was paid off during the year. Short-term debt activity for the year-ended June 30, 2013, was as follows:

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

7. SHORT-TERM DEBT, continued

	Principal Outstanding <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2013</u>
Christian Co. Fiscal Court	\$ <u>199,083</u>	\$ <u>-</u>	\$ <u>199,083</u>	\$ <u>-</u>

8. LONG-TERM DEBT

Long-term debt at June 30 is as follows:

	<u>Rate</u>	<u>2013</u>	<u>2012</u>
Revenue Bonds:			
Series 1998 Maturing 2021	3.75% to 4.90%	\$ 590,000	\$ 647,500
Series 2005 A Maturing 2026	3.375% to 4.00%	19,305,000	20,425,000
Series 2005 B Maturing 2017	3.00% to 3.750%	610,000	750,000
Series 2010 Maturing 2030	3.20% to 4.40%	<u>3,088,567</u>	<u>3,226,066</u>
Total Bonded Indebtedness		<u>23,593,567</u>	<u>25,048,566</u>
KIA Loans:			
KIA Fund A Wastewater-Maturing 2016	1.2%	1,346,451	1,873,856
KIA Fund B Water Plant-Maturing 2026	1.9%	2,517,006	2,686,193
KIA Fund A Phase II-Maturing 2018	1.8%	908,114	1,080,176
KIA Fund A Wastewater-Maturing 2017	1.2%	52,758	65,558
KIA Fund A Maturing 2020	0.4%	216,432	249,234
KIA Fund A Phase III-Maturing 2021	3.8%	388,214	432,180
KIA Fund A Phase IV-Maturing 2026	1.0%	3,049,808	3,277,758
KIA Fund C Wastewater-Maturing 2018	4.00% to 4.25%	295,000	345,000
KIA Fund F, Drinking Water- Maturing 2028	1.0%	1,163,016	1,234,538
KIA Fund A Phase V-Maturing 2027	1.0%	1,784,762	1,902,959
KIA Fund F Water-Maturing 2028	3.0%	3,220,599	3,388,403
KIA Fund F Water-Maturing 2032	1.0%	8,600,719	8,790,000
KIA Fund A (Maturities not established-loans not closed)		<u>14,768,632</u>	<u>9,300,263</u>
Total KIA Loans		<u>38,311,511</u>	<u>34,626,118</u>
KY Rural Finance-Maturing 2025	3.125% to 4.50%	387,500	412,500
KY Rural Finance-Maturing 2029	2.28% to 4.405%	1,343,000	1,406,000
Capital lease obligation	5.0%	-	1,843
City of Hopkinsville-note payable	-	109,293	109,959
Compensated absences		<u>309,691</u>	<u>296,191</u>
Total debt		64,054,562	61,901,177
Less: Maturities due within one year		(3,981,103)	(3,365,482)
Less: Unamortized bond discount		<u>(264,272)</u>	<u>(294,091)</u>
Long-term debt		<u>\$ 59,809,187</u>	<u>\$ 58,241,604</u>

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

8. LONG-TERM DEBT, continued

HWEA has pledged future revenues of the water and sewer system to repay \$23,003,567 in revenue bonds issued in 2005 and 2010. Proceeds from the 2005 bonds were used for the Lake Barkley Raw Water Intake project, and proceeds from the 2010 bond were used for the Moss Water Treatment Plant expansion. Principal and interest on these bonds are payable through 2030, solely from the water and sewer system net revenues. Annual principal and interest on the bonds are expected to require approximately 18 percent of such net revenues. Principal and interest paid for the current year was \$2,334,501. Net water and sewer system revenues totaled \$12,908,937. At year-end, pledged future revenues totaled \$29,722,782, which was the amount of the remaining principal and interest payments on these bonds.

The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. HWEA is in compliance with all significant financial requirements as of June 30, 2013 and 2012.

HWEA has pledged future revenues of the water and sewer system to repay \$38,016,511 in KIA loans established from 1996 through 2013, but they are subordinated to the existing revenue bonds. Proceeds from these loans were 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). Principal and interest on these loans are payable through 2032, solely from the water and sewer system net revenues. Annual principal and interest on these loans are expected to require approximately 17 percent of such net revenues. Principal and interest paid for the current year was \$2,347,216. Net water and sewer system revenues totaled \$12,908,937. At year-end, pledged future revenues totaled \$40,603,924, which was the amount of the remaining principal and interest payments on these KIA loans.

On September 20, 1995, HWEA secured a non-interest loan from the City. The loan is to be repaid quarterly in the amount of two (2) cents for each one thousand (1,000) gallons of water sold by it to any customer in Commerce Park.

During June 2008, HWEA acquired the sewerage system of the City of Oak Grove, Kentucky for a purchase price of \$6,986,762. As part of the payment of the purchase price, HWEA agreed to assume the debt relating to the City of Oak Grove sewerage system. The debt assumed from the City of Oak Grove totaled \$3,530,000. The remainder of the purchase price was to be paid by HWEA in the following manner: a payment of \$475,520 within thirty days of the execution of the contract and the remaining balance to be paid in annual installments over the next four years.

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

8. LONG-TERM DEBT, continued

When HWEA assumed the debt of the Oak Grove sewerage system, HWEA agreed to pledge future revenues of the water and sewer system to repay this acquired debt, the remainder of which totaled \$2,615,500 at year-end. Debt that was assumed included two Kentucky Rural Finance revenue bonds issued in 2004, one Water and Sewer Refunding and Improvement revenue bond issued in 1998, and one KIA loan established in 1996. Proceeds from this debt were used for expansion and upgrade of existing systems. Principal and interest on the total of these obligations are payable through 2029, solely from the water and sewer system net revenues. Annual principal and interest payments on this debt are expected to require approximately 2 percent of such net revenues. Principal and interest paid for the current year was \$323,051. Net water and sewer system revenues totaled \$12,908,937. At year-end, pledged future revenues totaled \$3,418,537, which was the amount of the remaining principal and interest payments on this debt.

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Principal Outstanding <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2013</u>	Due Within <u>One Year</u>
Compensated absences	\$ 296,191	\$ 234,593	\$ (221,093)	\$ 309,691	\$ 246,643*
Revenue bonds	25,048,567	-	(1,455,000)	23,593,567	1,507,500
Notes payable	36,554,576	5,478,367	(1,881,639)	40,151,304	2,226,960
Capital lease	1,843	-	(1,843)	-	-
Less: Unamortized bond discount	<u>(294,091)</u>	<u>-</u>	<u>29,819</u>	<u>(264,272)</u>	<u>-</u>
Total	<u>\$ 61,607,086</u>	<u>\$ 5,712,960</u>	<u>\$(3,529,756)</u>	<u>\$ 63,790,290</u>	<u>\$ 3,981,103</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.

Net interest costs relating to constructing certain assets are capitalized as part of the cost of the related asset. Total interest expense for 2013 and 2012 was \$1,769,387 and \$1,673,723, respectively. In 2013 and 2012, \$134,155 and \$201,089 of total interest costs were capitalized while the remaining \$1,635,232 and \$1,472,634 were expensed, respectively.

Annual debt service requirements projected to maturity for revenue bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,507,500	\$ 914,632	\$ 2,422,132
2015	1,567,500	858,457	2,425,957
2016	1,627,500	797,898	2,425,398
2017	1,690,000	732,788	2,422,788
2018	1,595,000	667,816	2,262,816
2019-2023	8,773,000	2,310,434	11,083,434
2024-2028	6,457,500	552,217	7,009,717
2029-2030	<u>375,567</u>	<u>21,780</u>	<u>397,347</u>
Total	<u>\$23,593,567</u>	<u>\$ 6,856,022</u>	<u>\$ 30,449,589</u>

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

8. LONG-TERM DEBT, continued

Defeased Bonds Outstanding:

In prior years, HWEA issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. HWEA has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account 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. On June 30, 2013 and 2012, the amount of bonds outstanding considered defeased is undeterminable.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,226,960	\$ 419,179	\$ 2,646,139
2015	2,157,568	384,238	2,541,806
2016	1,909,823	348,416	2,258,239
2017	1,667,150	318,159	1,985,309
2018	1,685,360	287,571	1,972,931
2019-2023	7,272,047	1,034,352	8,306,399
2024-2028	6,270,990	411,038	6,682,028
2029-2033	<u>16,961,406</u>	<u>56,260</u>	<u>17,017,666</u>
Total	<u>\$40,151,304</u>	<u>\$ 3,259,213</u>	<u>\$ 43,410,517</u>

9. CAPITAL LEASE

On June 29, 2007, HWEA entered into a capital lease agreement for a Panasonic phone system. The lease agreement is for a period of five years expiring on August 30, 2012, with a \$1 buyout option at the end of the lease period.

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

Equipment under Capital Leases	\$44,949
Less: Accumulated Depreciation	<u>25,845</u>
	<u>\$19,104</u>

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

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

10. DEFINED BENEFIT PENSION PLAN

HWEA participates in the statewide local government retirement system, which covers substantially all of HWEA's employees by their election.

Plan Description. HWEA contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Funding policy. Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% or 8% of their annual creditable compensation for hazardous and nonhazardous plan members, respectively. For plan members who began participating in CERS on or after September 1, 2008, the contribution rates are 6% and 9%, respectively. HWEA is required to contribute at an actuarially determined rate. The current rate is 19.55% of annual covered payroll. The contribution requirements of plan members and HWEA are established and may be amended by the KRS Board of Trustees. HWEA's contribution to CERS for the three years ended June 30, 2013, 2012, and 2011 was \$513,732, \$508,581, and \$425,654, respectively, and is equal to the required contribution for these years.

11. 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, 2013, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$13,468,650	13,156,227	\$ (312,423)
Operating Expenses	(7,019,820)	(6,982,592)	37,228
Depreciation Expense	<u>(3,343,560)</u>	<u>(3,746,347)</u>	<u>(402,787)</u>
Operating Income	3,105,270	2,427,288	(677,982)
Non-Operating Revenues	668,800	142,258	(526,542)
Non-Operating Expenses	<u>(1,645,000)</u>	<u>(2,143,926)</u>	<u>(498,926)</u>
Net Income	<u>\$ 2,129,070</u>	<u>\$ 425,620</u>	<u>\$ (1,703,450)</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
 WATER AND WASTEWATER DEPARTMENTS
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
 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.

No accruals have been established for the matters noted above because the amount of possible loss or range of loss cannot be reasonably estimated. Management does not expect that such matters would have a material adverse affect on future financial statements for a particular year, although such an outcome is possible.

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.

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's health insurance premiums are composed of a fixed and a variable portion. The variable portion is based on actual claims experienced during the year and fluctuates each month based on claims. Premiums accrued for health insurance are based on the year-to-date claims experience of HWEA. At June 30, 2013, the claims liability was \$30,435. Changes in the claims liability during the last two fiscal years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2011-2012	\$96,691	\$257,191	\$323,808	\$30,074
2012-2013	\$30,074	\$253,295	\$313,804	\$30,435

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

14. CONSTRUCTION COMMITMENT

At June 30, 2013, HWEA had several material construction projects underway: Phase VI & VII sewer projects, sewage pump station upgrades, and sewer work on Millbrooke Drive and Roney Drive. The total expenditures for these projects at the end of the year were approximately \$3.80 million with approximately \$2.45 million remaining. These construction projects are being financed primarily with loan proceeds from the Kentucky Infrastructure Authority.

15. RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

16. RELATED PARTY TRANSACTIONS

On September 20, 1995, HWEA secured a non-interest loan from the City of Hopkinsville. The loan is to be repaid quarterly in the amount of two (2) cents for each one thousand (1,000) gallons of water sold by it to any customer in Commerce Park. The balance of this loan at June 30, 2013 and June 30, 2012 was \$109,293 and \$109,959, respectively. Subsequent to year end, the Board of Directors of HWEA made a decision to pay this loan in full rather than make only the quarterly payments.

17. SUBSEQUENT EVENT

Subsequent to year end, the City of Hopkinsville issued a bond on behalf of HWEA in the amount of \$3.52 million. Another \$4.0 million loan was awarded to HWEA from the Kentucky Infrastructure Authority. HWEA will use this financing to fund the construction of a 2MG water tank and water mains along Eagle Way Bypass and US41A.

18. SPECIAL ITEM

During the year, the Northside Waste Water Treatment Plant was decommissioned and turned into a pumping station to send sewage to the Hammond Wood Waste Water Treatment Plant. Demolition costs of \$110,000 were incurred for this project, and losses totaling \$365,190 were a result of certain assets not being fully depreciated at the time of decommissioning / demolition. The total of these items, \$475,190, is presented as a special item on the statement of revenues, expenses, and changes in net position.

19. 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 year ended June 30, 2013, is presented on the following page.

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

19. SEGMENT REPORTING, continued

	Water Department	Sewer Department
CONDENSED STATEMENT OF NET POSITION		
Assets:		
Current assets	\$ 1,534,194	\$ 5,148,081
Capital assets	57,959,660	45,436,366
Other assets	1,717,253	435,785
Total assets	61,211,107	51,020,232
Liabilities:		
Current liabilities	3,002,672	2,638,791
Noncurrent liabilities	36,094,518	23,714,669
Total liabilities	39,097,190	26,353,460
Net position:		
Net investment in capital assets	19,557,261	19,526,929
Unrestricted	2,556,656	5,139,843
Total net position	\$ 22,113,917	\$ 24,666,772

**CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

Operating revenues (pledged against debt)	\$ 6,472,136	\$ 6,684,091
Depreciation expense	(1,819,077)	(1,927,270)
Other operating expenses	(3,529,804)	(3,452,788)
Operating income	1,123,255	1,304,033
Nonoperating revenues (expenses):		
Investment income	19,102	19,558
Other nonoperating income	8,000	12,402
Interest expense	(1,265,201)	(370,031)
Other nonoperating expense	(33,504)	-
Capital contributions	83,196	-
Special item	-	(475,190)
Transfers	676,261	(676,261)
Change in net position	611,109	(185,489)
Beginning net position	21,502,808	24,852,261
Ending net position	\$ 22,113,917	\$ 24,666,772

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:		
Operating activities	\$ 3,394,918	\$ 2,787,063
Capital and related financing activities	(4,192,142)	(2,609,676)
Investing activities	46,521	47,844
Net increase (decrease)	(750,703)	225,231
Beginning cash and cash equivalents	2,877,792	4,391,113
Ending cash and cash equivalents	\$ 2,127,089	\$ 4,616,344

Supporting Schedules

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING STATEMENT OF NET POSITION
June 30, 2013

ASSETS

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Current assets								
Cash								
Petty cash and change fund	\$ 975	\$ 975	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,950
Health claims fund	24,464	24,464	-	-	-	-	-	48,928
Employee reimbursement fund	13,076	-	-	-	-	-	-	13,076
Operation and maintenance fund	<u>(51,983)</u>	<u>(51,983)</u>	<u>200,655</u>	<u>200,655</u>	<u>523,535</u>	<u>523,535</u>	<u>3,905,938</u>	<u>5,250,352</u>
Total cash	(13,468)	(26,544)	200,655	200,655	523,535	523,535	3,905,938	5,314,306
Receivables	478,713	348,196	10,766	8,552	19,394	11,102	117,643	994,366
Inventory	255,595	-	-	-	-	-	-	255,595
Prepaid insurance	59,004	59,004	-	-	-	-	-	118,008
Due from other divisions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>779,844</u>	<u>380,656</u>	<u>211,421</u>	<u>209,207</u>	<u>542,929</u>	<u>534,637</u>	<u>4,023,581</u>	<u>6,682,275</u>
Restricted assets								
Bond and interest redemption fund								
Investments	37,082	-	-	-	-	-	-	37,082
Accrued interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>37,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,082</u>
Construction fund								
Checking accounts	1,366,525	-	-	-	-	-	-	1,366,525
Retainage fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,366,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,366,525</u>
Unemployment fund								
Investments	12,760	12,760	-	-	-	-	-	25,520
Accrued interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>12,760</u>	<u>12,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,520</u>
Total restricted assets	<u>1,416,367</u>	<u>12,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,429,127</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING STATEMENT OF NET POSITION (continued)
June 30, 2013**

ASSETS (continued)

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Property, plant and equipment								
Property and plant	81,793,049	65,963,044	661,925	245,325	571,280	1,219,780	7,854,657	158,309,060
General plant	1,497,625	1,899,791	-	-	-	-	-	3,397,416
Unclassified plant	349,498	3,991,062	-	-	-	-	-	4,340,560
	<u>83,640,172</u>	<u>71,853,897</u>	<u>661,925</u>	<u>245,325</u>	<u>571,280</u>	<u>1,219,780</u>	<u>7,854,657</u>	<u>166,047,036</u>
Less accumulated depreciation	<u>26,549,941</u>	<u>33,752,476</u>	<u>150,572</u>	<u>167,090</u>	<u>213,204</u>	<u>807,328</u>	<u>1,010,399</u>	<u>62,651,010</u>
Net property, plant & equipment	<u>57,090,231</u>	<u>38,101,421</u>	<u>511,353</u>	<u>78,235</u>	<u>358,076</u>	<u>412,452</u>	<u>6,844,258</u>	<u>103,396,026</u>
Receivable - CCBE	-	180,742	-	-	-	-	-	180,742
Receivable - Hopk Ind. Fdn	-	242,283	-	-	-	-	-	242,283
Receivable - Othe	15,055	-	-	-	-	-	-	15,055
Receivable- Crofton division	<u>178,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,000</u>
	<u>193,055</u>	<u>423,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>616,080</u>
Deferred charges								
Fiscal agency fees - revenue bonds	<u>285,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,831</u>
Total deferred charges	<u>285,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,831</u>
Total assets	<u>\$ 59,765,328</u>	<u>\$ 38,917,862</u>	<u>\$722,774</u>	<u>\$287,442</u>	<u>\$901,005</u>	<u>\$ 947,089</u>	<u>\$ 10,867,839</u>	<u>\$ 112,409,339</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING STATEMENT OF NET POSITION (continued)
June 30, 2013**

LIABILITIES AND EQUITY

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Current liabilities								
Current portion of long-term deb	\$ 2,266,584	\$ 1,104,197	\$ -	\$ 12,954	\$ 16,466	\$ 16,466	\$ 208,500	\$ 3,625,167
Current portion of capital lease obligatio	-	-	-	-	-	-	-	-
Christian Co. Fiscal Court-note payabl	-	-	-	-	-	-	-	-
City of Hopkinsville loan payabl	109,293	-	-	-	-	-	-	109,293
Customer deposits	66,432	-	-	-	-	-	-	66,432
Accrued interest	228,378	20,211	91	-	79	79	14,799	263,637
Construction retainage payabl	-	114,523	-	-	-	-	-	114,523
Accounts payable	198,217	277,368	636	-	639	-	-	476,860
Construction contracts payabl	1,535	737,373	-	-	-	-	-	738,908
Accrued salaries and compensated absences	114,322	132,321	-	-	-	-	-	246,643
Due to other divisions	-	-	-	-	-	-	-	-
Total current liabilities	2,984,761	2,385,993	727	12,954	17,184	16,545	223,299	5,641,463
Long-term deb								
Revenue bonds payable (net of current maturitie	21,286,228	-	-	-	-	-	530,000	21,816,228
KIA loans payable (net of current maturitie	14,687,826	15,696,004	-	39,804	91,750	91,750	5,685,777	36,292,911
KY Rural Finance loans payable (net of current maturitie	-	-	-	-	-	-	1,637,000	1,637,000
Crofton division-note payabl	-	-	-	-	178,000	-	-	178,000
Capital lease obligation (net of current maturitie	-	-	-	-	-	-	-	-
Compensated absences (net of current portion)	28,714	34,334	-	-	-	-	-	63,048
Total liabilities	38,987,529	18,116,331	727	52,758	286,934	108,295	8,076,076	65,628,650
Net Position								
Net investment in capital asset	18,796,218	20,429,113	511,262	25,477	249,781	304,157	(1,231,818)	39,084,190
Net position, unrestricted	1,981,581	372,418	210,785	209,207	364,290	534,637	4,023,581	7,696,499
Total net position	20,777,799	20,801,531	722,047	234,684	614,071	838,794	2,791,763	46,780,689
Total liabilities and net position	\$ 59,765,328	\$ 38,917,862	\$ 722,774	\$ 287,442	\$ 901,005	\$ 947,089	\$ 10,867,839	\$ 112,409,339

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
 WATER AND WASTEWATER DEPARTMENTS
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 For the Year ended June 30, 2013**

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Operating revenues	<u>\$ 6,144,206</u>	<u>\$ 5,117,819</u>	<u>\$ 113,978</u>	<u>\$ 101,352</u>	<u>\$ 213,952</u>	<u>\$ 105,533</u>	<u>\$ 1,359,387</u>	<u>\$ 13,156,227</u>
Operating expenses								
Water source of supply	392,985	-	-	-	-	-	-	392,985
Water purification	1,068,512	-	252	-	19,382	-	-	1,088,146
Water distribution	489,058	-	9,648	-	21,681	-	-	520,387
Sewerage plant	-	993,045	-	14,256	-	15,245	476,732	1,499,278
Sewerage mains and laterals	-	339,810	-	19,841	-	12,632	-	372,283
Administrative and general	1,422,658	1,463,986	5,784	4,556	10,937	6,156	-	2,914,077
Technical services	88,907	106,529	-	-	-	-	-	195,436
Depreciation	<u>1,784,239</u>	<u>1,693,188</u>	<u>18,515</u>	<u>5,800</u>	<u>16,323</u>	<u>12,819</u>	<u>215,463</u>	<u>3,746,347</u>
Total operating expenses	<u>5,246,359</u>	<u>4,596,558</u>	<u>34,199</u>	<u>44,453</u>	<u>68,323</u>	<u>46,852</u>	<u>692,195</u>	<u>10,728,939</u>
Income from operations	<u>897,847</u>	<u>521,261</u>	<u>79,779</u>	<u>56,899</u>	<u>145,629</u>	<u>58,681</u>	<u>667,192</u>	<u>2,427,288</u>
Non-operating revenues (expenses)								
Interest revenue	19,102	19,558	-	-	-	-	-	38,660
Gain (loss) on sale of fixed assets	8,000	12,402	-	-	-	-	-	20,402
Intergovernmental donation	(33,504)	-	-	-	-	-	-	(33,504)
Interest expense	<u>(1,264,478)</u>	<u>(243,143)</u>	<u>-</u>	<u>(873)</u>	<u>(723)</u>	<u>(723)</u>	<u>(125,292)</u>	<u>(1,635,232)</u>
Total non-operating revenues (expenses)	<u>(1,270,880)</u>	<u>(211,183)</u>	<u>-</u>	<u>(873)</u>	<u>(723)</u>	<u>(723)</u>	<u>(125,292)</u>	<u>(1,609,674)</u>
Income (loss) before contributions, special items, and operating transfers	(373,033)	310,078	79,779	56,026	144,906	57,958	541,900	817,614
Capital contributions								
Capital assets provided by developers	83,196	-	-	-	-	-	-	83,196
Special item								
Decommissioning of Northside WWTP	-	(475,190)	-	-	-	-	-	(475,190)
Transfers (to) from								
Operating transfers in (out)	<u>649,869</u>	<u>(1,403,441)</u>	<u>4,793</u>	<u>47,519</u>	<u>21,599</u>	<u>105,657</u>	<u>574,004</u>	<u>-</u>
Change in net position	360,032	(1,568,553)	84,572	103,545	166,505	163,615	1,115,904	425,620
Net position, beginning of year	<u>20,417,767</u>	<u>22,370,084</u>	<u>637,475</u>	<u>131,139</u>	<u>447,566</u>	<u>675,179</u>	<u>1,675,859</u>	<u>46,355,069</u>
Net position, end of year	<u>\$ 20,777,799</u>	<u>\$ 20,801,531</u>	<u>\$ 722,047</u>	<u>\$ 234,684</u>	<u>\$ 614,071</u>	<u>\$ 838,794</u>	<u>\$ 2,791,763</u>	<u>\$ 46,780,689</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY OF PROPERTY, PLANT AND EQUIPMENT
June 30, 2013**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION			Depreciated values June 30, 2013	
	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013	Balance June 30, 2012	Additions		Retirements
Water								
Land	\$ 1,263,895	\$ -	33,504	\$ 1,230,391	\$ -	\$ -	\$ -	\$ 1,230,391
Structures	2,884,946	3,333	-	2,888,279	1,513,638	59,116	-	1,572,754
Elevated tanks	3,684,992	13,765	-	3,698,757	1,912,836	113,293	-	2,026,129
Transmission mains	196,596	-	-	196,596	196,596	-	-	196,596
Distribution mains	15,396,373	461,698	-	15,858,071	7,168,958	275,291	-	7,444,249
Services	2,663,442	121,587	-	2,785,029	1,328,082	56,346	-	1,384,428
Meters and installation	2,478,993	44,080	-	2,523,073	2,221,268	44,541	-	2,265,809
Hydrants	927,162	5,574	-	932,736	467,913	17,098	-	485,011
Purification structures	18,249,516	8,762	-	18,258,278	3,132,852	571,458	-	3,704,310
Purification equipment	4,598,288	6,672	-	4,604,960	3,746,064	160,835	-	3,906,899
Cast iron pipe lines	44,436	-	-	44,436	43,278	772	-	44,050
Electric pumping equipment	413,148	-	-	413,148	319,488	13,863	-	333,351
Auxiliary power units	128,790	-	-	128,790	128,790	-	-	128,790
Quarry - raw water supply	29,411,838	51,872	-	29,463,710	1,826,350	439,831	-	2,266,181
Total water plant	82,342,415	717,343	33,504	83,026,254	24,006,113	1,752,444	-	25,758,557
General								
Transportation equipment	325,583	64,866	-	390,449	232,021	17,562	-	249,583
Tractors & backhoes	114,591	44,980	42,850	116,721	101,455	13,225	42,850	71,830
General equipment	294,201	12,108	-	306,309	246,352	10,496	-	256,848
Office furniture and fixtures	167,268	22,102	-	189,370	147,526	4,798	-	152,324
Two-way radio equipment	11,875	-	-	11,875	11,208	127	-	11,335
Computer equipment	423,920	58,981	-	482,901	392,815	20,425	-	413,240
Total general plant	1,337,438	203,037	42,850	1,497,625	1,131,377	66,633	42,850	1,155,160
Unclassified plant								
Construction in progress	236,602	112,896	-	349,498	-	-	-	349,498
Total water plant	\$ 83,916,455	\$ 1,033,276	\$ 76,354	\$ 84,873,377	\$ 25,137,490	\$ 1,819,077	\$ 42,850	\$ 26,913,717
								\$ 57,959,660

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY OF PROPERTY, PLANT AND EQUIPMENT(continued)
June 30, 2013**

Descriptions	ASSETS				ACCUMULATED DEPRECIATION				Depreciated values June 30, 2013
	Balance	Additions	Retirements	Balance	Balance	Additions	Retirements	Balance	
	June 30, 2012			June 30, 2013	June 30, 2012			June 30, 2013	
SEWERAGE									
Land	\$ 341,449	\$ -	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	3,535,922	84,012	-	3,619,934	1,002,403	102,069	-	1,104,472	2,515,462
Wastewater treatment plants									
Northside	8,892,552	-	554,470	8,338,082	6,315,660	213,032	197,840	6,330,852	2,007,230
Hammond-Wood	11,684,314	25,437	-	11,709,751	7,493,782	364,162	-	7,857,944	3,851,807
Machinery and equipment	2,625,148	-	10,928	2,614,220	2,019,472	111,980	2,368	2,129,084	485,136
Pumping stations	3,137,627	6,007,520	-	9,145,147	1,911,768	288,370	-	2,200,138	6,945,009
Mains and laterals	38,926,683	587,540	-	39,514,223	14,080,991	749,778	-	14,830,769	24,683,454
Total sewerage plan	69,143,695	6,704,509	565,398	75,282,806	32,824,076	1,829,391	-	34,453,259	40,829,547
General									
Transportation equipment	463,263	53,384	35,658	480,989	317,697	26,256	35,658	308,295	172,694
Tractors & backhoes	124,084	63,115	42,850	144,349	59,355	11,371	42,850	27,876	116,473
General equipment	546,083	87,728	-	633,811	368,062	38,566	-	406,628	227,183
Office furniture and fixtures	170,986	18,767	-	189,753	146,343	5,627	-	151,970	37,783
Two-way radio equipment	11,875	-	-	11,875	11,208	127	-	11,335	540
Computer equipmen	382,032	56,982	-	439,014	361,998	15,932	-	377,930	61,084
Total general plan	1,698,323	279,976	78,508	1,899,791	1,264,663	97,879	78,508	1,284,034	615,757
Unclassified plant									
Construction in progress	5,393,518	5,180,318	6,582,774	3,991,062	-	-	-	-	3,991,062
Total sewer plan	\$ 76,235,536	\$12,164,803	\$ 7,226,680	\$ 81,173,659	\$ 34,088,739	\$ 1,927,270	\$ 78,508	\$ 35,737,293	\$ 45,436,366

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
 WATER AND WASTEWATER DEPARTMENTS
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
 SUMMARY OF SINKING FUND REQUIREMENTS
 June 30, 2013**

Bonds Due Fiscal Year	1998	2005 A	2005 B	2010	Total Debt Service
2014	88,513	1,903,645	164,316	265,658	2,422,132
2015	93,223	1,904,893	164,244	263,598	2,425,958
2016	97,531	1,902,600	163,809	261,458	2,425,398
2017	96,450	1,901,600	163,000	261,738	2,422,788
2018	97,690	1,903,500	-	261,626	2,262,816
2019	98,648	1,903,200	-	262,453	2,264,301
2020	99,360	1,905,600	-	263,776	2,268,736
2021	49,825	1,905,600	-	262,884	2,218,309
2022	-	1,903,200	-	262,929	2,166,129
2023	-	1,903,300	-	262,659	2,165,959
2024	-	1,900,800	-	260,574	2,161,374
2025	-	1,905,500	-	258,737	2,164,237
2026	-	1,902,300	-	259,127	2,161,427
2027	-	-	-	261,139	261,139
2028	-	-	-	261,540	261,540
2029	-	-	-	261,280	261,280
2030	-	-	-	130,500	130,500
	<u>721,240</u>	<u>24,745,738</u>	<u>655,369</u>	<u>4,321,676</u>	<u>30,444,023</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, 2013, is \$2,422,132. The HWEA is setting aside funds to meet this requirement.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
For the Years Ended June 30, 2013 and 2012**

	2013		2012	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Water Source of Supply				
Labor	\$ 3,019	0.02%	\$ 5,986	0.05%
Supplies	758	0.01%	458	0.00%
Utilities	384,537	2.92%	376,111	2.87%
Grounds and maintenance	4,671	0.04%	4,253	0.03%
	392,985	2.99%	386,808	2.95%
Water Purification				
Supervision	47,830	0.36%	41,518	0.32%
Labor	327,995	2.49%	268,715	2.05%
Chemicals	306,250	2.33%	227,286	1.73%
Maintenance to structures	2,619	0.02%	910	0.01%
Maintenance to equipment	10,175	0.08%	4,391	0.03%
Supplies	8,914	0.07%	9,470	0.07%
Maintenance to reservoirs and tanks	5,737	0.04%	1,413	0.01%
Utilities	318,948	2.42%	309,325	2.36%
Training and education	492	0.00%	1,707	0.01%
Laboratory work	9,862	0.07%	31,404	0.24%
Laboratory supplies and expense	20,711	0.16%	18,275	0.14%
Plant security	-	0.00%	-	0.00%
Grounds and maintenance	3,295	0.03%	6,218	0.05%
Transportation expense	24,817	0.19%	19,950	0.15%
Miscellaneous	501	0.00%	-	0.00%
	1,088,146	8.27%	940,582	7.17%
Water Distribution				
Supervision	49,592	0.38%	47,779	0.36%
Labor	265,598	2.02%	261,864	1.99%
Supplies	45,933	0.35%	77,986	0.59%
Repairs to structures	-	0.00%	-	0.00%
Repairs to distribution mains	30,545	0.23%	37,462	0.29%
Repairs to services	12,412	0.09%	9,572	0.07%
Repair to meters	789	0.01%	490	0.00%
Removing and resetting meters	53,274	0.40%	53,153	0.40%
Repairs to fire hydrants	1,717	0.01%	13,908	0.11%
Repairs to equipment	26,425	0.20%	26,162	0.20%
Transportation expense	11,386	0.09%	8,645	0.07%
Grounds and maintenance	12,214	0.09%	7,236	0.06%
Training, education and licenses	7,449	0.06%	10,897	0.08%
Small tools	3,053	0.02%	38	0.00%
Miscellaneous	-	0.00%	-	0.00%
	520,387	3.96%	555,192	4.23%
Subtotal carried forward	\$2,001,518	15.21%	\$1,882,582	14.34%

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES (continued)
For the Years Ended June 30, 2013 and 2012**

	2013		2012	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	\$2,001,518	15.21%	\$1,882,582	14.34%
Water Technical Services				
Labor	78,872	0.60%	79,885	0.61%
Supplies	3,345	0.03%	2,336	0.02%
Training, education and licenses	467	0.00%	239	0.00%
Transportation expense	6,111	0.05%	6,441	0.05%
Miscellaneous	112	0.00%	420	0.00%
Total water technical services	88,907	0.68%	89,321	0.68%
Water Administrative and General				
Commissioners' fees	4,917	0.04%	15,579	0.12%
Office salaries	336,640	2.56%	396,530	3.02%
Customer service salaries	55,476	0.42%	40,754	0.31%
Employee benefits	585,920	4.45%	603,290	4.60%
Office supplies	58,448	0.44%	50,612	0.39%
Postage	17,285	0.13%	15,851	0.12%
Telephone	18,987	0.14%	14,721	0.11%
Insurance and bonds	156,304	1.19%	161,680	1.23%
Professional services	22,937	0.17%	47,398	0.36%
Safety program	39,398	0.30%	39,170	0.30%
Office building maintenance	43,659	0.33%	38,406	0.29%
Bad debts, net	26,651	0.20%	22,196	0.17%
Training, education and licenses	812	0.01%	6,251	0.05%
Transportation expense	17,321	0.13%	16,154	0.12%
Rez rebate payments	750	0.01%	1,875	0.01%
Miscellaneous	53,874	0.41%	43,088	0.33%
Total water administrative and general	1,439,379	10.94%	1,513,555	11.53%
Total water operating expense other than depreciation	\$3,529,804	26.83%	\$3,485,458	26.55%

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
 WATER AND WASTEWATER DEPARTMENTS
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
 SCHEDULE OF OPERATING EXPENSES (continued)
 For the Years Ended June 30, 2013 and 2012**

	2013		2012	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Wastewater Treatment Plant				
Supervision	\$ 31,063	0.24%	\$ 10,767	0.08%
Labor	273,851	2.08%	310,594	2.37%
Chemicals and materials	21,834	0.17%	22,571	0.17%
Supplies and tools	13,155	0.10%	18,854	0.14%
Lights, power, water, and fuel oil	611,260	4.65%	602,656	4.59%
Transportation expense	36,877	0.28%	35,519	0.27%
Repairs - machinery and equipment	42,601	0.32%	40,885	0.31%
Repairs - buildings	7,551	0.06%	3,110	0.02%
Maintenance of pump stations	180,236	1.37%	206,700	1.57%
Laboratory work	87,878	0.67%	100,969	0.77%
Laboratory supplies and expense	16,809	0.13%	18,911	0.14%
Permit - pretreatment compliance	54,428	0.41%	46,318	0.35%
Sludge disposal	95,284	0.72%	88,429	0.67%
Training, education and licenses	2,107	0.02%	2,011	0.02%
Billing and collection expense	23,748	0.18%	24,116	0.18%
Miscellaneous	596	0.00%	5,078	0.04%
	1,499,278	11.40%	1,537,488	11.71%
Wastewater Mains and Laterals				
Supervision	50,019	0.38%	41,056	0.31%
Labor	159,135	1.21%	139,843	1.07%
Supplies and tools	44,999	0.34%	56,633	0.43%
Repairs - mains and laterals	27,024	0.21%	20,276	0.15%
Repairs - truck and sewerage equipment	10,067	0.08%	5,711	0.04%
Gas, oil, and tires	39,720	0.30%	43,783	0.33%
Developer rebates	41,319	0.31%	40,543	0.31%
	372,283	2.83%	347,845	2.65%
Wastewater Technical Services				
Labor	95,831	0.73%	91,742	0.70%
Supplies	4,726	0.04%	3,886	0.03%
Training, education and licenses	467	0.00%	199	0.00%
Transportation expense	5,423	0.04%	6,496	0.05%
Miscellaneous	82	0.00%	419	0.00%
	106,529	0.81%	102,742	0.78%
Subtotal carried forward	\$ 1,978,090	15.04%	\$ 1,988,075	15.15%

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES (continued)
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	<u>\$1,978,090</u>	<u>15.04%</u>	<u>\$1,988,075</u>	<u>15.15%</u>
Sewerage Administrative and General				
Commissioners' fees	4,917	0.04%	15,579	0.12%
Office salaries	334,034	2.54%	392,409	2.99%
Customer service salaries	54,577	0.41%	40,993	0.31%
Labor - camera crew	2,373	0.02%	5,809	0.04%
Employee benefits	632,253	4.81%	585,258	4.46%
Office supplies	57,904	0.44%	50,268	0.38%
Postage	17,285	0.13%	15,851	0.12%
Telephone	18,987	0.14%	14,721	0.11%
Insurance and bonds	156,439	1.19%	161,680	1.23%
Professional services	23,437	0.18%	47,398	0.36%
Office building maintenance	44,851	0.34%	39,382	0.30%
Bad debts, net	35,394	0.27%	26,964	0.21%
Training, education and licenses	777	0.01%	6,251	0.05%
Safety program	39,399	0.30%	39,157	0.30%
Transportation expense	17,143	0.13%	16,154	0.12%
Rez rebate payments	750	0.01%	1,875	0.01%
Miscellaneous	<u>34,178</u>	<u>0.26%</u>	<u>25,200</u>	<u>0.19%</u>
Total sewer administrative and general	<u>1,474,698</u>	<u>11.21%</u>	<u>1,484,949</u>	<u>11.31%</u>
Total sewerage operating expense other than depreciation	<u><u>\$3,452,788</u></u>	<u><u>26.24%</u></u>	<u><u>\$3,473,024</u></u>	<u><u>26.46%</u></u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENT
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013**

<u>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Loan:</u>			
U.S. Environmental Protection Agency:			
Capitalization Grants for Clean Water	66.458	Loan A09-19	\$ 1,313,777
State Revolving Funds - Pass-through	66.458	Loan A11-07	346,422
from the State of Kentucky	66.458	Loan A11-08	1,304,420
Infrastructure Authority *	66.458	Loan A11-09	<u>12,425</u>
			2,977,044
Capitalization Grants for Drinking Water	66.468	Loan F08-06	<u>7,955</u>
State Revolving Funds - Pass-through			
from the State of Kentucky			
Infrastructure Authority			
<i>Total Federal Expenditures for the period.</i>			<u>\$ 2,984,999</u>

*Denotes major program

NOTE A - BASIS OF PRESENTATION

This schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of HWEA, it is not intended to and does not present the financial position, changes in financial position, or cash flows of HWEA.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles of OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

NOTE C - SUBRECIPIENTS

No amounts were provided to subrecipients.



& CO. - HOPKINSVILLE LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

1113 BETHEL STREET
HOPKINSVILLE, KENTUCKY 42240
(270) 886-0206 - FAX (270) 886-0875

FIRM ID # 61-1313802

LEONARD F. ADCOCK, CPA
JOHN M. DeANGELIS, CPA
KERRY T. FORT, CPA

**INDEPENDENT AUDITOR'S 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, 2013, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements and have issued our report thereon dated January 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HWEA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2013-1).

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.

Compliance and Other Matters

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

HWEA's Response to Finding

HWEA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. HWEA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky
January 25, 2014



& CO. - HOPKINSVILLE LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

1113 BETHEL STREET
HOPKINSVILLE, KENTUCKY 42240
(270) 886-0206 - FAX (270) 886-0875

FIRM ID # 61-1313802

LEONARD F. ADCKOCK, CPA
JOHN M. DeANGELIS, CPA
KERRY T. FORT, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

We have audited the Hopkinsville Water Environment Authority's (HWEA), a component unit of the City of Hopkinsville, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HWEA's major federal programs for the year ended June 30, 2013. HWEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HWEA's major federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HWEA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HWEA's compliance.

Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of HWEA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HWEA's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HWEA's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

York, Neel & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky
January 25, 2014

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
For the year ended June 30, 2013**

Section II – Financial Statement Findings

2013-1 Condition: Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls.

Criteria: Bank accounts should be reconciled on a monthly basis in order to recognize and resolve errors or other problems in a timely manner. A timely review for the preparation of complete and accurate bank reconciliations is necessary to ensure that cash receipts and disbursements are properly recorded.

Cause of Condition: There was an inadequate review of bank reconciliations to ensure that the person responsible for preparing the reconciliations was doing so on a timely basis.

Potential Effect of Condition: Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Failure to perform reconciliations could result in improper recording of receipts and disbursements. Also, it is generally easier and less time consuming to reconcile accounts while transactions are fresh in mind.

Recommendation: We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements. A monthly review of bank reconciliations should also be part of the process. We also recommend that the bank reconciliations be reviewed by a supervisor of the person preparing the reconciliation. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary, as a result, be recorded.

Client Response: Client will implement these recommendations.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER AND WASTEWATER DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2013**

The Hopkinsville Water Environment Authority had no prior audit findings.