

**HOPKINSVILLE WATER
ENVIRONMENT AUTHORITY**

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

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
DIRECTORY OF OFFICIALS
June 30, 2015**

COMMISSIONERS

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

ATTORNEY

Dan Kemp

PRESIDENT & CEO

Derrick W. Watson

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
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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, Sewer, and Gas Departments (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2015 and 2014, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of HWEA, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2015 and 2014, 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.

Change in Accounting Principle

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, HWEA adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 4 through 10 and pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HWEA's basic financial statements. The combining schedules and other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2016, 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 26, 2016

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hopkinsville Water Environment Authority Water, Sewer, and Gas Departments (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the years ended June 30, 2015 and 2014. 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

- For the year-ended June 30, 2015, HWEA's total assets and deferred outflows of resources increased by \$6.11 million while total liabilities and deferred inflows of resources increased \$4.74 million resulting in total net position increasing approximately \$1.37 million over the course of the year's operations.
- Long-term debt for the year ended June 30, 2015, increased, which is, in part, due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB No. 68*. The implementation of these statements resulted in HWEA reporting a net pension liability of \$3,708,000 and \$4,196,000 at June 30, 2015, and June 30, 2014, respectively. Additional information on these statements can be found in Note 15 to the financial statements.
- Additional changes in long-term debt were the result of the City of Hopkinsville (City) issuing three new general obligation bonds during the year ended June 30, 2015, on behalf of HWEA. One such bond was used to fund the natural gas project, and two other bonds were issued to refund certain older bonds to achieve debt savings.
- HWEA's operating revenues increased 4.86% during the year ended June 30, 2015, while operating expenses increased approximately 4.49%. HWEA implemented a 9.5% water rate increase in January 2015, as well as an 8.0% sewer rate increase that was effective July 1, 2014, which helps explain the increase in operating revenues.
- Non-operating income increased \$62,281 during the year ended June 30, 2015. This increase is mainly due to amortizing bond premiums associated with the three general obligation bonds discussed previously in this section.
- Interest expense on outstanding debt decreased \$73,548 during the year ended June 30, 2015, which is a result of paying down long-term debt.
- Bond issuance costs increased \$147,096 during the year ended June 30, 2015, which is a result of expensing the current costs of issuing the three general obligations bond discussed previously. The expensing of bond issuance costs comes from the requirements of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities.", that was implemented during the ended June 30, 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

All of HWEA's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of HWEA's operations for the years ended June 30, 2015 and 2014, and can be used to determine profitability, credit worthiness, and whether HWEA has successfully recovered all of its costs through its user fees and other charges.

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

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 2015?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about HWEA's activities in a way that will help answer this question.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET POSITION

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

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

| | <u>FY 2015</u> | (Restated) <u>FY 2014</u> | <u>Dollar Change</u> | <u>Total Percent Change</u> |
|--|-----------------|------------------------------|--------------------------|-------------------------------------|
| Current and Other Assets | \$14,448 | \$12,311 | \$ 2,137 | 17.36 % |
| Capital Assets | 106,575 | 103,264 | 3,311 | 3.21 % |
| Deferred Outflows of Resources | <u>1,182</u> | <u>516</u> | <u>666</u> | <u>129.07 %</u> |
| Total Assets and Deferred Outflows of Resources | <u>122,205</u> | <u>116,091</u> | <u>6,114</u> | <u>5.27 %</u> |
| Long-term Debt Outstanding | 73,252 | 71,147 | 2,105 | 2.96 % |
| Other Liabilities | 2,813 | 1,026 | 1,787 | 174.17 % |
| Deferred Inflows of Resources | <u>855</u> | <u>-</u> | <u>855</u> | <u>---</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>76,920</u> | <u>72,173</u> | <u>4,747</u> | <u>6.58 %</u> |
| Net Investment in | | | | |
| Capital Assets | 41,798 | 40,205 | 1,593 | 3.96 % |
| Restricted | 1,456 | 1,377 | 79 | 5.74 % |
| Unrestricted | <u>2,031</u> | <u>2,336</u> | <u>(305)</u> | <u>(13.06)%</u> |
| Total Net Position | <u>\$45,285</u> | <u>\$43,918</u> | <u>\$ 1,367</u> | <u>3.11 %</u> |

As can be seen from the table above, net position increased \$1.37 million during the year ended June 30, 2015. The overall increase in net position is due to a significant increase in total assets and deferred outflows of resources combined with a similar increase in total liabilities and deferred inflows of resources. The largest increase in current and other assets stems from the proceeds received from the 2014B general obligation bond issued by the City on behalf of HWEA that is to be used to help finance the natural gas project. The increase in capital assets is largely due to significant, ongoing water, sewer, and natural gas construction projects. A significant portion of the increase to deferred outflows of resources comes from deferred refunding costs associated with the issuance of two general obligation bonds by the City of Hopkinsville on behalf of HWEA to refund certain older bonds to achieve debt savings. Draws on various loans from KIA toward construction projects and the City of Hopkinsville's issuance of the general obligation bond to help fund the natural gas projects help to explain the increase in long-term debt. Another factor for the increase in long-term debt is the new requirement (per GASBS No. 68) to now record HWEA's portion of the net pension liability associated with the statewide local government retirement plan in which HWEA participates. This new statement also accounts for increases to both deferred inflows and outflows of resources. The reason for the increase in other liabilities is mainly due to large payables due to contractors working on various construction projects.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CHANGES IN NET POSITION

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

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

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

| | <u>FY 2015</u> | (Restated) <u>FY 2014</u> | <u>Dollar Change</u> | <u>Total Percent Change</u> |
|---|------------------|------------------------------|--------------------------|-------------------------------------|
| Operating Revenues | \$ 14,803 | \$ 14,117 | \$ 686 | 4.86 % |
| Non-operating Revenues | <u>145</u> | <u>83</u> | <u>62</u> | <u>74.70 %</u> |
| Total Revenues | <u>14,948</u> | <u>14,200</u> | <u>748</u> | <u>5.27 %</u> |
| Depreciation Expense | 3,915 | 3,849 | 66 | 1.71 % |
| Other Operating Expenses | 8,011 | 7,566 | 445 | 5.88 % |
| Interest Expense | 1,443 | 1,516 | (73) | (4.82)% |
| Other Non-operating Expenses | <u>301</u> | <u>141</u> | <u>160</u> | <u>113.48 %</u> |
| Total Expenses | <u>13,670</u> | <u>13,072</u> | <u>598</u> | <u>4.57 %</u> |
| Income/(Loss) before Contributions and Transfers | 1,278 | 1,128 | 150 | 13.30 % |
| Capital Contributions | <u>89</u> | <u>142</u> | <u>(53)</u> | <u>(37.32)%</u> |
| Changes in Net Position | <u>1,367</u> | <u>1,270</u> | <u>97</u> | <u>7.64 %</u> |
| Beginning Net Position | 43,918 | 46,349 | (2,431) | (5.25)% |
| Change in Accounting Principle | <u>-</u> | <u>(3,701)</u> | <u>3,701</u> | <u>100.00 %</u> |
| Beginning Net Position, Restated | <u>43,918</u> | <u>42,648</u> | <u>1,270</u> | <u>2.98 %</u> |
| Ending Net Position | <u>\$ 45,285</u> | <u>\$ 43,918</u> | <u>\$ 1,367</u> | <u>3.11 %</u> |

As can be seen from the table above, operating revenues increased \$686 thousand, which is a result of increases in both water and sewer rates that went into effect during the year ended June 30, 2015. The main reason for the \$445 thousand increase in other operating expenses is from increased costs for the sewerage plant and increases in general and administrative expenses pertaining to employee benefits. Interest expense decreased approximately \$73 thousand as a result of paying down debt, and non-operating expenses increased \$160 thousand due to expensing bond issuance costs. Capital contributions decreased \$53 thousand due to not receiving any grant money during the year ended June 30, 2015.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CHANGES IN NET POSITION, continued

A prior period adjustment was recorded because of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB No. 68*, which are required to be applied retroactively. This statement, among other things, requires governments to now record their portion of any net pension liability associated with their participation in a statewide local government retirement plan. See additional information on this statement at Note 15.

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 2015
(000's)**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------|-----------------|-----------------|-----------------|
| Operating revenues | \$ 14,832 | \$ 14,803 | \$ (29) |
| Non-operating revenues | 30 | 145 | 115 |
| Operating expenses & depreciation | (11,990) | (11,927) | 63 |
| Non-operating expenses | <u>(1,834)</u> | <u>(1,743)</u> | <u>91</u> |
| Net Income | <u>\$ 1,038</u> | <u>\$ 1,278</u> | <u>\$ 240</u> |

CAPITAL ASSETS

At June 30, 2015, HWEA had \$176 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2015 and 2014, various capital assets were purchased and/or constructed and placed into service, and various capital assets were disposed of either because the asset had been sold or was no longer in service.

Construction in progress at June 30, 2015, consisted primarily of work done on various sewer projects including the rehabilitation of several sewage pumping stations. Work being done on the installation of natural gas lines and various water related projects are also included in the balance, as well. Several projects were completed during the year ended June 30, 2015, and placed into service, with the two largest projects being work done on the Northside sewage pumping station and the rehabilitation of four other sewage pumping stations. See Note 12 to the financial statements for information on construction commitments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

CAPITAL ASSETS (cont.)

**Table A-4
Capital Assets**

| | FY 2015 | FY 2014 | Dollar Change | Total Percent Change |
|-----------------------------------|----------------------|----------------------|---------------------|----------------------------|
| Water | \$ 86,106,975 | \$ 84,828,567 | \$ 1,278,408 | 1.51 % |
| Sewerage | 88,591,216 | 83,540,600 | 5,050,616 | 6.05 % |
| Gas | 1,089,912 | 263,073 | 826,839 | 314.30 % |
| Subtotal | 175,788,103 | 168,632,240 | 7,155,863 | 4.24 % |
| Less: Accumulated Depreciation | (69,212,849) | (65,368,233) | (3,844,616) | (5.88)% |
| Net Property & Equipment | <u>\$106,575,254</u> | <u>\$103,264,007</u> | <u>\$ 3,311,247</u> | <u>3.21 %</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 6 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, July 1, 2013, and July 1, 2014. A series of water rate increases were also approved, with the first increase effective January 1, 2014. An additional water rate increase was effective January 1, 2015, and a subsequent increase will become effective January 1, 2016. This future increase will impact water revenues of HWEA for the coming year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

OTHER INFORMATION SIGNIFICANT TO OPERATIONS, (cont.)

During the year ended June 30, 2015, HWEA entered into agreements with the U.S. Army Corps of Engineers to design and construct a natural gas pipeline and a water line to serve the Fort Campbell Army Post with a redundant connection for natural gas and domestic water. These construction projects are currently being financed with loans from a local bank, but once the construction of these projects is complete, HWEA will be reimbursed for the full amount of the projects over a ten year period by the U.S. Army Corps of Engineers.

Subsequent to the year ended June 30, 2015, HWEA entered into a contract with Cumberland Pipeline of Russell Springs, Kentucky for phase three construction of a twenty inch water main extension along US Highway 41A. This project is to be financed with proceeds from the 2013B general obligation bond that was issued by the City of Hopkinsville on behalf of HWEA as well as a grant from the Kentucky Infrastructure Authority.

FINAL COMMENTS

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

Financial Statements

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
June 30, 2015 and 2014**

| | <u>2015</u> | <u>(Restated) 2014</u> |
|--|-----------------------|----------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,291,108 | \$ 5,589,610 |
| Customer receivables | 973,376 | 1,079,615 |
| Inventory | 312,826 | 246,391 |
| Prepaid insurance | 26,450 | 37,682 |
| Accrued interest on note receivable | 485 | 605 |
| | <u>6,604,245</u> | <u>6,953,903</u> |
| Restricted assets: | | |
| Cash and cash equivalents | 6,852,673 | 4,725,700 |
| Investments | 231,370 | 230,306 |
| | <u>7,084,043</u> | <u>4,956,006</u> |
| Property, plant and equipment: | | |
| Property, plant and equipment | 168,553,314 | 162,849,883 |
| Unclassified plant - construction in progress, engineering fees, and other costs | 7,234,789 | 5,782,357 |
| Accumulated depreciation | <u>(69,212,849)</u> | <u>(65,368,233)</u> |
| Net property, plant and equipment | <u>106,575,254</u> | <u>103,264,007</u> |
| Notes receivable | <u>316,458</u> | <u>394,229</u> |
| Other receivables | <u>442,844</u> | <u>7,407</u> |
| Deferred outflows of resources: | | |
| Pension | 487,244 | 495,315 |
| Deferred refunding costs | 694,910 | 20,490 |
| | <u>1,182,154</u> | <u>515,805</u> |
| Total deferred outflows of resources | <u>1,182,154</u> | <u>515,805</u> |
| Total assets and deferred outflows of resources | <u>\$ 122,204,998</u> | <u>\$ 116,091,357</u> |

Continued

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
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STATEMENTS OF NET POSITION (continued)
June 30, 2015 and 2014**

| | <u>2015</u> | <u>(Restated) 2014</u> |
|---|-----------------------|----------------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 2,519,604 | \$ 3,745,355 |
| Payable to City of Hopkinsville, current portion | 1,235,000 | 130,000 |
| Customer deposits | 89,178 | 78,824 |
| Accrued interest | 288,020 | 276,612 |
| Construction retainage payable | 289,158 | 78,005 |
| Accounts payable | 720,186 | 523,619 |
| Accounts payable - restricted | 77,613 | 1,300 |
| Construction contracts payable | 1,349,400 | 67,691 |
| Accrued salaries and compensated absences | <u>322,489</u> | <u>297,943</u> |
| Total current liabilities | <u>6,890,648</u> | <u>5,199,349</u> |
| Long-term debt: | | |
| Revenue bonds payable, net of current portion | 3,223,714 | 21,917,857 |
| KIA loans payable, net of current portion | 38,665,649 | 37,265,791 |
| Revenue leases - Planters | 440,937 | - |
| Payable to City of Hopkinsville, net of current portion | 22,940,539 | 3,390,000 |
| Net pension liability | 3,708,000 | 4,196,000 |
| Compensated absences, net of current portion | <u>195,854</u> | <u>204,198</u> |
| Total long-term debt | <u>69,174,693</u> | <u>66,973,846</u> |
| Total liabilities | <u>76,065,341</u> | <u>72,173,195</u> |
| Deferred inflows of resources: | | |
| Deferred revenue - USACE | 440,937 | - |
| Pension | <u>414,000</u> | <u>-</u> |
| Total deferred inflows of resources | <u>854,937</u> | <u>-</u> |
| Net position: | | |
| Net investment in capital assets | 41,798,006 | 40,205,250 |
| Restricted: | | |
| Capital asset acquisition | 68,306 | - |
| Debt reserves | 1,386,982 | 1,376,718 |
| Unrestricted | <u>2,031,426</u> | <u>2,336,194</u> |
| Total net position | <u>45,284,720</u> | <u>43,918,162</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 122,204,998</u> | <u>\$ 116,091,357</u> |

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30, 2015 and 2014**

| | <u>2015</u> | <u>(Restated) 2014</u> |
|---|----------------------|----------------------------|
| Operating revenues: | | |
| Charges for services (net of allowances of \$175,605 and \$174,767 for 2015 and 2014, respectively) | \$ 14,659,265 | \$ 13,881,497 |
| Other operating revenue | <u>143,983</u> | <u>235,252</u> |
| Total operating revenues | <u>14,803,248</u> | <u>14,116,749</u> |
| Operating expenses: | | |
| Water source of supply | 349,798 | 310,990 |
| Water purification | 1,133,296 | 1,039,977 |
| Water distribution | 535,390 | 591,631 |
| Sewerage plant | 1,944,288 | 1,800,016 |
| Sewerage mains and laterals | 412,973 | 402,811 |
| Administrative and general | 3,455,907 | 3,217,414 |
| Technical services | 180,941 | 202,714 |
| Depreciation | <u>3,914,704</u> | <u>3,849,124</u> |
| Total operating expenses | <u>11,927,297</u> | <u>11,414,677</u> |
| Income from operations | <u>2,875,951</u> | <u>2,702,072</u> |
| Nonoperating revenues (expenses): | | |
| Interest revenue | 58,489 | 74,860 |
| Gain on sale of fixed assets | 14,871 | 8,260 |
| Amortization of deferred refunding costs | (41,689) | (9,314) |
| Amortization of debt discounts and premiums | 72,041 | (18,957) |
| Bond issuance costs | (259,402) | (112,306) |
| Interest expense | <u>(1,442,760)</u> | <u>(1,516,308)</u> |
| Total non-operating revenues (expenses) | <u>(1,598,450)</u> | <u>(1,573,765)</u> |
| Income (loss) before contributions, and operating transfers | 1,277,501 | 1,128,307 |
| Capital contributions: | | |
| Capital assets contributed by developers | 89,057 | 87,150 |
| Grant income | <u>-</u> | <u>54,500</u> |
| Change in net position | 1,366,558 | 1,269,957 |
| Net position - beginning of year | 43,918,162 | 46,348,890 |
| Change in accounting principle - implementation of GASBS No. 68 | <u>-</u> | <u>(3,700,685)</u> |
| Net position - beginning of year as restated | 43,918,162 | 42,648,205 |
| Net position - end of year | <u>\$ 45,284,720</u> | <u>\$ 43,918,162</u> |

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014**

| | 2015 | (Restated) 2014 |
|--|---------------|----------------------------|
| Cash flows from operating activities | | |
| Received from customers | \$ 14,775,858 | \$ 13,808,640 |
| Paid to suppliers for goods and services | (3,666,650) | (3,488,570) |
| Paid to employees for services - including benefits | (4,177,993) | (3,901,606) |
| Other operating revenue | 143,983 | 235,252 |
| Net cash flows provided by operating activities | 7,075,198 | 6,653,716 |
| Cash flows from capital and related financing activities | | |
| Acquisition of fixed assets | (5,654,073) | (4,297,207) |
| Proceeds from disposition of fixed assets | 24,912 | 22,274 |
| Proceeds of capital debt | 24,301,048 | 6,570,625 |
| Principal paid on capital debt | (22,628,078) | (3,754,349) |
| Interest paid on capital debt | (1,431,352) | (1,503,575) |
| Net cash provided (used) by capital and related financing activities | (5,387,543) | (2,962,232) |
| Cash flows from investing activities | | |
| Collection of note receivable | 83,271 | 36,444 |
| Interest earned on investments | 57,545 | 72,472 |
| Net cash provided (used) by investing activities | 140,816 | 108,916 |
| Net increase (decrease) in cash and cash equivalents | 1,828,471 | 3,800,400 |
| Cash and cash equivalents at beginning of year (includes restricted assets of \$4,725,700 and \$1,200,604 for 2015 and 2014, respectively) | 10,315,310 | 6,514,910 |
| Cash and cash equivalents at end of year (includes restricted assets of \$6,852,673 and \$4,725,700 for 2015 and 2014, respectively) | \$ 12,143,781 | \$ 10,315,310 |

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, HOPKINSVILLE
STATEMENTS OF CASH FLOWS (continued)
For the years ended June 30, 2015 and 2014**

| | 2015 | (Restated) 2014 |
|---|--------------|--------------------|
| Reconciliation of Operating Income to Cash Flows from Operating Activities | | |
| Cash flows from operating activities | | |
| Income from operations | \$ 2,875,951 | \$ 2,702,072 |
| Adjustments to reconcile net income to cash provided by operating activities | | |
| Depreciation | 3,914,704 | 3,849,124 |
| Pension expense (GASBS No. 68 implementation) | (65,929) | - |
| Change in assets and liabilities | | |
| (Increase)/decrease in customer receivables | 106,239 | (85,249) |
| (Increase)/decrease in inventory | (66,435) | 9,204 |
| (Increase)/decrease in prepaid expenses | 11,232 | 80,326 |
| Increase/(decrease) in accounts payable | 272,880 | 48,062 |
| Increase/(decrease) in customer deposits | 10,354 | 12,392 |
| Increase/(decrease) in accrued salaries and compensated absences | 16,202 | 37,785 |
| Net cash provided by operating activities | \$ 7,075,198 | \$ 6,653,716 |
| <u>Supplemental Disclosures of Cash Flows Information</u> | | |
| Cash paid during the period for: | | |
| Interest expense (net of \$321,042 and \$258,691 capitalized interest for 2015 and 2014, respectively) | \$ 1,431,352 | \$ 1,503,575 |

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

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

b. Basis of accounting

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

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

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of 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, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of accounting, continued

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

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

c. Separate accounting

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

d. Cash and cash equivalents, deposits and investments

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

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

As security for deposits of HWEA, any bank is generally required to pledge securities in an amount to exceed funds on deposit by HWEA. In addition, HWEA is insured under FDIC up to \$250,000 at each bank.

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

e. Inventories

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

f. Prepaid expenses

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

g. Restricted assets

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

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

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|---------------------|---------------------|
| Bond and interest redemption fund | \$ 1,425,355 | \$ 1,414,785 |
| Construction fund | 5,632,780 | 3,515,453 |
| Unemployment fund | <u>25,908</u> | <u>25,768</u> |
| Total restricted funds | <u>\$ 7,084,043</u> | <u>\$ 4,956,006</u> |

For the years ended June 30, 2015 and 2014, the bond and interest redemption fund includes \$1,386,982 and \$1,376,717, respectively, to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority. For the years ended June 30, 2015 and 2014, the construction fund includes \$5,191,843 and \$3,515,453, respectively, of unspent bonds proceeds from the 2013B and 2014B general obligation bonds that were issued by the City of Hopkinsville on behalf of HWEA.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

h. 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. HWEA maintains a capitalization threshold of \$2,500.

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

i. Compensated absences

HWEA accrues vacation benefits as earned by its employees if the leave is attributable to past service and it is probable that HWEA will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. HWEA also accrues sick leave benefits. Upon retirement from HWEA, a maximum of six months of the employee's sick leave balance shall be added to his/her service credit for the purpose of determining his/her annual retirement allowance. HWEA accrues these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at June 30.

j. Long-term debt

Per GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance costs are expensed as incurred. Bond discounts and premiums are netted against the corresponding liability on the statement of net position. Discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method.

During the year ended June 30, 2015, three separate bonds were issued by the City of Hopkinsville on behalf of HWEA. The 2014B bonds were issued to finance a portion of the natural gas project; the 2014C bonds were issued to currently refund the 2001H and 2004B KY Rural Water Finance bonds associated with the Oak Grove sewer system; and the 2015A bonds were issued to advance refund the 2005A bonds associated with the Lake Barkley Raw Water Project. Both refunding were done to achieve debt savings. GASBS No. 23 requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized. During the year ended June 30, 2014, on behalf of HWEA, the City of Hopkinsville issued new bonds for the construction of a 2MG water tank and water mains along Eagle Way Bypass and US41A.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Capital Contributions

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

l. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that future period. Items being reported in this category for HWEA include deferred charges on various debt refundings and deferred outflows relating to HWEA's contributions to the pension plan. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. Those amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows relating to the pension plan will be recognized as a reduction of the net pension liability in a subsequent year.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. HWEA has two items that qualify for reporting in this category. The first item is deferred inflows associated with its pension plan that will be recognized in pension expense in future years. The second item is deferred revenue associated with the arrangement HWEA has with the United States Army Corp of Engineers (USACE) relating to financing the water and gas projects in Ft. Campbell.

m. Net Position

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

n. Pensions

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

o. Estimates

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

2. DEPOSITS AND INVESTMENTS

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

a. Deposits

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that in the event of bank failure, HWEA's deposits may not be returned, or HWEA will not be able to recover collateral securities in the possession of an outside party. Kentucky state law requires all of HWEA's funds to be fully insured or collateralized. As of June 30, 2015, \$1,956,863 of HWEA's deposited funds were exposed to custodial credit risk. This exposure was corrected by July 31, 2015, when various accounts were transferred to another bank. As of June 30, 2014, none of HWEA's deposited funds were exposed to custodial credit risk.

b. Investments

| <u>Investments as of June 30, 2015:</u> | <u>Average Credit Quality/Rating</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
|---|--|-----------------------|-------------------|
| Planters Bank CD | n/a | \$ 205,462 | \$ 205,462 |
| Planters Bank CD | n/a | 25,908 | 25,908 |
| <u>Investments as of June 30, 2014:</u> | | | |
| Planters Bank CD | n/a | \$ 204,538 | \$ 204,538 |
| Planters Bank CD | n/a | 25,768 | 25,768 |

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, HWEA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counter party or a counter party's trust department or agent, but not in the government's name. As of June 30, 2015 and 2014, none of HWEA's investments were exposed to custodial credit risk.

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

2. DEPOSITS AND INVESTMENTS, continued

b. Investments, continued

Credit Risk:

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

Concentration of Credit Risk:

HWEA places no limit on the amount that may be invested in any one issuer. HWEA's investments are in certificates of deposit. Investments in certificates of deposit are specifically excluded from this type of risk.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. HWEA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk:

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

3. RECEIVABLES

Net customer receivables include the following as of June 30:

| | <u>2015</u> | <u>2014</u> |
|------------------------------|-------------------|--------------------|
| Customer accounts receivable | \$ 929,748 | \$1,046,052 |
| Allowance for uncollectible | - | - |
| Miscellaneous receivables | <u>43,628</u> | <u>33,563</u> |
| Total receivables | <u>\$ 973,376</u> | <u>\$1,079,615</u> |

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

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

3. RECEIVABLES, continued

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

| | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|
| Accounts charged off in current period | \$263,022 | \$ 92,842 |
| Recovery of accounts previously charged off | <u>(32,876)</u> | <u>(30,253)</u> |
| Net bad debts | <u>\$230,146</u> | <u>\$ 62,589</u> |

HWEA has a note receivable from the Christian County Board of Education (CCBE) for installation of sewer lines, due in annual installments of \$32,049 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance of this receivable was \$122,632 and \$151,946 at June 30, 2015 and 2014, respectively.

HWEA also has a note receivable from the Hopkinsville Industrial Foundation for the installation of sewer lines in the industrial park, due in semi-annual installments including interest at 1.0%, due April 1, 2027. The balance of this receivable was \$193,826 and \$242,283 at June 30, 2015 and 2014, respectively.

During the year ended June 30, 2015, HWEA entered into agreements with the U.S. Army Corps of Engineers (USACE) to design and construct a natural gas pipeline and a water line to serve the Fort Campbell Army Post with a redundant connection for natural gas and domestic water. These construction projects are currently being financed with loans from a local bank, but once the construction of these projects is complete, HWEA will be reimbursed for the full amount of the projects over a ten year period by USACE. As a result of this arrangement, HWEA has recorded a receivable (with deferred revenue offsetting the receivable) for the amount of funds currently drawn on these loans. As USACE reimburses HWEA, the note receivable will be written down, and the deferred revenue balance will be amortized to revenue over the ten year payment period. The balance of these receivables was \$440,937 and \$0 at June 30, 2015 and 2014, respectively.

4. INVENTORY

Inventory as of June 30, 2015 and 2014, consisted of materials and supplies with a cost of \$312,826 and \$246,391, respectively.

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

5. PROPERTY, PLANT AND EQUIPMENT

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

| | Balance <u>July 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2015</u> |
|---------------------------------------|--------------------------------|---------------------|---------------------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,571,840 | \$ - | \$ - | \$ 1,571,840 |
| Construction in progress | 5,782,357 | 6,006,671 | 4,554,239 | 7,234,789 |
| Capital Assets Being Depreciated: | | | | |
| Structures and improvements | 150,940,878 | 5,203,902 | 6,424 | 156,138,356 |
| Equipment | 9,489,668 | 243,417 | 26,354 | 9,706,731 |
| Vehicles | 847,497 | 336,240 | 47,350 | 1,136,387 |
| Less Accumulated Depreciation: | | | | |
| Structures and improvements | 57,196,630 | 3,390,305 | 1,285 | 60,585,650 |
| Equipment | 7,825,051 | 438,733 | 25,732 | 8,238,052 |
| Vehicles | <u>346,552</u> | <u>85,665</u> | <u>43,070</u> | <u>389,147</u> |
| Total | <u>\$103,264,007</u> | <u>\$ 7,875,527</u> | <u>\$ 4,564,280</u> | <u>\$106,575,254</u> |

A summary of property, plant and equipment as of June 30, 2014, is as follows:

| | Balance <u>July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2014</u> |
|---------------------------------------|--------------------------------|---------------------|---------------------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,571,840 | \$ - | \$ - | \$ 1,571,840 |
| Construction in progress | 4,340,560 | 3,359,251 | 1,917,454 | 5,782,357 |
| Capital Assets Being Depreciated: | | | | |
| Structures and improvements | 149,104,892 | 1,840,099 | 4,113 | 150,940,878 |
| Equipment | 10,158,306 | 201,789 | 870,427 | 9,489,668 |
| Vehicles | 871,438 | 254,428 | 278,369 | 847,497 |
| Less Accumulated Depreciation: | | | | |
| Structures and improvements | 53,842,482 | 3,356,583 | 2,434 | 57,196,630 |
| Equipment | 8,250,650 | 432,492 | 858,092 | 7,825,051 |
| Vehicles | <u>557,878</u> | <u>67,043</u> | <u>278,369</u> | <u>346,552</u> |
| Total | <u>\$103,396,026</u> | <u>\$ 1,799,449</u> | <u>\$ 1,931,468</u> | <u>\$103,264,007</u> |

Depreciation expense for the years ended June 30, 2015 and 2014 was \$3,914,704 and \$3,849,124, respectively.

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5. PROPERTY, PLANT AND EQUIPMENT, continued

Net interest costs relating to constructing certain assets are capitalized as part of the cost of the related asset. Total interest expense for the years ended June 30, 2015 and 2014 was \$1,763,802 and \$1,774,999, respectively. For the years ended June 30, 2015 and 2014, \$321,042 and \$258,691 of total interest costs were capitalized while the remaining \$1,442,760 and \$1,516,308 were expensed, respectively.

6. LONG-TERM DEBT

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

Long-term debt at June 30 is as follows:

| | <u>Rate</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|-------------------|-------------------|
| <u>Revenue Bonds:</u> | | | |
| Series 1998-Maturing 2021 | 3.750% to 4.900% | \$ 500,000 | \$ 530,000 |
| KY Rural Finance-Maturing 2025 (refunded with Series 2014C) | 3.125% to 4.500% | - | 360,000 |
| KY Rural Finance-Maturing 2029 (refunded with Series 2014C) | 2.280% to 4.405% | - | 1,277,000 |
| Series 2005 A-Maturing 2026 (refunded with Series 2015A) | 3.375% to 4.000% | - | 18,145,000 |
| Series 2005 B-Maturing 2017 | 3.000% to 3.750% | 315,000 | 465,000 |
| Series 2010-Maturing 2030 | 3.200% to 4.400% | <u>2,795,500</u> | <u>2,946,067</u> |
| Total Revenue Bonds | | <u>3,610,500</u> | <u>23,723,067</u> |
| <u>KIA Loans:</u> | | | |
| KIA Fund A Wastewater-Maturing 2016 | 1.200% | 272,522 | 812,699 |
| KIA Fund A Wastewater-Maturing 2017 | 1.200% | 26,695 | 39,805 |
| KIA Fund A Phase II-Maturing 2018 | 1.800% | 554,601 | 732,941 |
| KIA Fund C Wastewater-Maturing 2018 | 4.000% to 4.250% | 180,000 | 240,000 |
| KIA Fund A Maturing 2020 | 0.400% | 150,435 | 183,500 |
| KIA Fund A Phase III-Maturing 2021 | 3.800% | 295,158 | 342,562 |
| KIA Fund B Water Plant-Maturing 2026 | 1.900% | 2,168,882 | 2,344,590 |
| KIA Fund A Phase IV-Maturing 2026 | 1.000% | 2,587,028 | 2,819,572 |
| KIA Fund A Phase V-Maturing 2027 | 1.000% | 1,544,799 | 1,665,379 |
| KIA Fund F, Drinking Water- Maturing 2028 | 1.000% | 1,017,816 | 1,090,778 |
| KIA Fund F Water-Maturing 2028 | 3.000% | 2,869,623 | 3,047,724 |
| KIA Fund F Water-Maturing 2032 | 1.000% | 7,793,583 | 8,199,164 |
| KIA Fund A Sewer-Maturing 2033 | 2.000% | 443,534 | 463,822 |
| KIA Fund A Sewer-Maturing 2034 | 2.000% | 7,180,631 | 7,285,043 |
| KIA Fund A (Maturities not established-loans not closed) | | <u>13,722,446</u> | <u>10,070,501</u> |
| Total KIA Loans | | <u>40,807,753</u> | <u>39,338,080</u> |

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6. LONG-TERM DEBT, continued

| | <u>Rate</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|---------------------|---------------------|
| <u>Revenue Leases – Planters:</u> | | | |
| Water (loan not closed) | 4.000% | \$ 158,042 | \$ - |
| Gas (loan not closed) | 4.500% | <u>282,895</u> | <u>-</u> |
| Total Revenue Leases - Planters | | <u>440,937</u> | <u>-</u> |
| <u>Payable to City of Hopkinsville:</u> | | | |
| General Obligation Bonds: | | | |
| Series 2013B-Maturing 2034 | 2.000% to 4.500% | 3,390,000 | 3,520,000 |
| Series 2014B-Maturing 2038 | 1.500% to 6.625% | 1,700,000 | - |
| Series 2014C-Maturing 2029 | 1.100% to 3.250% | 1,620,000 | - |
| Series 2015A-Maturing 2026 | 4.000% | <u>15,710,000</u> | <u>-</u> |
| Total Payable to City of Hopkinsville | | <u>22,420,000</u> | <u>3,520,000</u> |
| Net Pension Liability | | <u>3,708,000</u> | <u>4,196,000</u> |
| Compensated Absences | | <u>518,343</u> | <u>502,141</u> |
| Total Long-Term Debt | | 71,505,533 | 71,279,288 |
| Less: Maturities due within one year | | (4,077,093) | (4,173,298) |
| Unamortized bond (discount) / premium | | <u>1,746,253</u> | <u>(132,144)</u> |
| Total Long-term Debt, Net | | <u>\$69,174,693</u> | <u>\$66,973,846</u> |

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

| | Principal Outstanding <u>July 1, 2014</u> | <u>Additions</u> | <u>Reductions</u> | Principal Outstanding <u>June 30, 2015</u> | Due Within <u>One Year</u> |
|----------------------------------|---|---------------------|-----------------------|--|----------------------------------|
| Compensated absences | \$ 502,141 | \$ 146,589 | \$ (130,387) | \$ 518,343 | \$ 322,489* |
| Revenue bonds | 23,723,067 | - | (20,112,567) | 3,610,500 | 377,500 |
| KIA loans | 39,338,080 | 3,855,183 | (2,385,510) | 40,807,753 | 2,142,104 |
| Revenue leases – Planters | - | 440,937 | - | 440,937 | - |
| Payable to City of Hopkinsville: | | | | | |
| Gen. obligation bond – 2013B | 3,520,000 | - | (130,000) | 3,390,000 | 135,000 |
| Gen. obligation bond – 2014B | - | 1,700,000 | - | 1,700,000 | - |
| Gen. obligation bond – 2014C | - | 1,620,000 | - | 1,620,000 | 120,000 |
| Gen. obligation bond – 2015A | - | 15,710,000 | - | 15,710,000 | 980,000 |
| Net pension liability | 4,196,000 | - | (488,000) | 3,708,000 | - |
| Unamortized bond premium | 89,999 | 1,670,156 | (4,616) | 1,755,539 | - |
| Unamortized bond discount | <u>(222,143)</u> | <u>-</u> | <u>212,857</u> | <u>(9,286)</u> | <u>-</u> |
| Total | <u>\$ 71,147,144</u> | <u>\$25,142,865</u> | <u>\$(23,038,223)</u> | <u>\$ 73,251,786</u> | <u>\$ 4,077,093</u> |

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

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6. LONG-TERM DEBT, continued

During the year ended June 30, 2014, the following changes occurred in long-term debt:

| | Principal Outstanding July 1, 2013 | Additions | Reductions | Principal Outstanding June 30, 2014 | Due Within One Year |
|----------------------------------|--|----------------------------|-----------------------------|---|----------------------------|
| Compensated absences | \$ 464,356 | \$ 269,861 | \$ (232,076) | \$ 502,141 | \$ 297,943* |
| Revenue bonds | 25,324,067 | - | (1,601,000) | 23,723,067 | 1,667,500 |
| KIA loans | 38,311,511 | 3,070,625 | (2,044,056) | 39,338,080 | 2,077,855 |
| Payable to City of Hopkinsville: | | | | | |
| Gen. obligation bond – 2013B | - | 3,520,000 | - | 3,520,000 | 130,000 |
| Non-interest bearing note | 109,293 | - | (109,293) | - | - |
| Net pension liability | - | 4,196,000 | - | 4,196,000 | - |
| Unamortized bond premium | - | 92,306 | (2,307) | 89,999 | - |
| Unamortized bond discount | <u>(243,372)</u> | <u>-</u> | <u>21,229</u> | <u>(222,143)</u> | <u>-</u> |
| Total | <u>\$ 63,965,855</u> | <u>\$11,148,792</u> | <u>\$(3,967,503)</u> | <u>\$ 71,147,144</u> | <u>\$ 4,173,298</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.

Revenue Bonds:

During the year ended June 30, 2008, HWEA acquired the sewerage system of the City of Oak Grove, and as part of that acquisition HWEA agreed to assume the debt relating to the City of Oak Grove sewerage system. One such obligation was a revenue bond issued in 1998, the proceeds of which were used for the expansion and upgrade of existing systems. This obligation matures in 2021. Interest rates range from 3.750% to 4.900%. Interest is due in semi-annual installments. Two other obligations assumed by HWEA as a result of this acquisition were two Kentucky Rural Finance revenue bonds issued in 2004 (both of which were refunded during the ended June 30, 2015, using proceeds from the 2014C general obligation bond issued by the City of Hopkinsville on behalf of HWEA).

During the year ended June 30, 2005, the City of Hopkinsville, on behalf of HWEA, issued series 2005A revenue bonds, the proceeds of which were used to fund the Lake Barkley Raw Water Project. This obligation was originally set to mature in 2026, it had interest rates ranging from 3.375% to 4.000%, and interest was due in semi-annual installments. However, during the year ended June 30, 2015, these revenue bonds were advance refunded with the proceeds of the 2015A general obligation bonds issued by the City of Hopkinsville on behalf of HWEA.

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

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6. LONG-TERM DEBT, continued

Revenue Bonds, continued:

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

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

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|---------------------|---------------------|---------------------|
| 2016 | \$ 377,500 | \$ 147,080 | \$ 524,580 |
| 2017 | 387,500 | 132,988 | 520,488 |
| 2018 | 237,500 | 121,276 | 358,776 |
| 2019 | 249,000 | 111,683 | 360,683 |
| 2020 | 261,500 | 101,341 | 362,841 |
| 2021-2025 | 1,053,500 | 353,938 | 1,407,438 |
| 2026-2030 | <u>1,044,000</u> | <u>129,586</u> | <u>1,173,586</u> |
| Total | <u>\$ 3,610,500</u> | <u>\$ 1,097,892</u> | <u>\$ 4,708,392</u> |

As of June 30, 2015, HWEA has pledged future revenues of the water and sewer system to repay \$3,610,500 in total revenue bonds. Principal and interest on these bonds are payable through 2030, solely from the water and sewer system net revenues. Annual principal and interest on the bonds are expected to require approximately 4% of such net revenues (based on principal and interest payments for the year ending June 30, 2016, as a percentage of net water and sewer system revenues for the year ended June 30, 2015, which totaled \$14,659,265). Principal and interest paid for the year ended June 30, 2015, was \$2,010,832. As of June 30, 2015, pledged future revenues totaled \$4,708,392, which is the amount of the remaining principal and interest payments on these bonds.

The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. HWEA is in compliance with all significant financial requirements as of June 30, 2015 and 2014.

KIA Loans:

Proceeds from KIA loans have been used for the expansion and upgrade of the Wastewater Treatment System (Fund A), a new Water Treatment Facility (Fund B), and infrastructure to comply with the Safe Drinking Water Act (Fund F).

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6. LONG-TERM DEBT, continued

KIA Loans, continued:

Annual debt service requirements projected to maturity for all KIA loans are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|---------------------|---------------------|----------------------|
| 2016 | \$ 2,142,104 | \$ 433,255 | \$ 2,575,359 |
| 2017 | 1,904,160 | 400,345 | 2,304,505 |
| 2018 | 1,925,733 | 367,072 | 2,292,805 |
| 2019 | 1,699,746 | 334,567 | 2,034,313 |
| 2020 | 1,710,613 | 306,816 | 2,017,429 |
| 2021-2025 | 8,611,941 | 1,120,896 | 9,732,837 |
| 2026-2030 | 6,062,165 | 477,689 | 6,539,854 |
| 2031-2034 | <u>16,751,291</u> | <u>100,495</u> | <u>16,851,786</u> |
| Total | <u>\$40,807,753</u> | <u>\$ 3,541,135</u> | <u>\$ 44,348,888</u> |

As of June 30, 2015, HWEA has pledged future revenues of the water and sewer system to repay \$40,807,753 in total KIA loans established from 1996 through 2015, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2034, solely from the water and sewer system net revenues. Annual principal and interest on these loans are expected to require approximately 18% of such net revenues (based on principal and interest payments for the year ending June 30, 2016, as a percentage of net water and sewer system revenues for the year ended June 30, 2015, which totaled \$14,659,265). Principal and interest paid for the year ended June 30, 2015, was \$3,076,441. As of June 30, 2015, pledged future revenues totaled \$44,348,888, which was the amount of the remaining principal and interest payments on these KIA loans.

Revenue Leases:

During the year ended June 30, 2015, HWEA entered into an agreement with the United States Army Corps of Engineers (USACE) for the design and construction of approximately 4.4 miles of 16" ductile iron water main in order to serve the Ft. Campbell Army Post with a redundant connection for domestic water supply. In order to help finance this construction project, the City of Hopkinsville, on behalf of HWEA, entered into a lease agreement with a local bank in which draws can be made from the lease as construction progresses, the aggregate of which cannot exceed \$4,838,823. The interest rate on this lease agreement is 4.00%.

During the period of construction, interest will accrue daily on the total advances made, but will not be payable until the first day of the month that is at least thirty days after the end of the construction period. At that same time, a lump sum payment of \$2.5 million will be made, which will include accrued but unpaid interest. The remainder of the unpaid principal balance plus interest will be payable in 120 equal monthly installments based on a payment schedule that will be established at the end of the construction period. Repayment of amounts associated with this lease will come from payments received from USACE. This lease matures July 1, 2027.

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6. LONG-TERM DEBT, continued

Revenue Leases, continued:

During the year ended June 30, 2015, HWEA entered into another agreement with USACE for the design and construction of approximately 7.9 miles of 8" natural gas pipeline in order to serve the Ft. Campbell Army Post with a redundant connection for natural gas supply. In order to help finance this construction project, the City of Hopkinsville, on behalf of HWEA, entered into a lease agreement with a local bank in which draws can be made from the lease as construction progresses, the aggregate of which cannot exceed \$10,951,730. The interest rate on this lease agreement is 4.50%.

During the period of construction, interest will accrue daily on the total advances made, but will not be payable until the first day of the month that is at least thirty days after the end of the construction period. At that same time, a lump sum payment of \$2.4 million will be made, which will include accrued but unpaid interest. The remainder of the unpaid principal balance plus interest will be payable in 120 equal monthly installments based on a payment schedule that will be established at the end of the construction period. Repayment of amounts associated with this lease will come from payments received from USACE. This lease matures July 1, 2027.

Payable to City of Hopkinsville – General Obligation Bonds:

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

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2014B) for the purpose of helping finance the acquisition, construction, installation, and equipping of the Phase I Natural Gas Line and to pay other allowable expenditures including issuance costs. This obligation matures in 2038 with interest rates ranging from 1.500% to 6.625%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2014C) to currently refund and redeem the outstanding Kentucky Rural Water Finance Corporation revenue bonds dated March 3, 2004 and April 27, 2004 (Series 2001H and 2004B maturing in 2025 and 2029, respectively), the proceeds of which financed the acquisition, construction, installation, and equipping of extensions, additions, and improvements to the Oak Grove system. (These revenue bonds were assumed by HWEA upon HWEA's acquisition of the Oak Grove sewer system during the year ended June 30, 2008.)

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6. LONG-TERM DEBT, continued

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

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

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2015A) to advance refund the outstanding 2005A revenue bonds, the proceeds of which financed the acquisition, construction, equipping, and installation of a 36-inch raw water line from Lake Barkley to the Moss Raw Water Treatment Plant and appurtenances, including a raw water intake. The Series 2015A general obligation bonds were also issued to pay other allowable expenditures including issuance costs. This advance refunding took place to achieve debt service savings. This obligation matures in 2026 with interest rate of 4.00%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

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

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|---------------------|---------------------|----------------------|
| 2016 | \$ 1,235,000 | \$ 824,627 | \$ 2,059,627 |
| 2017 | 1,475,000 | 772,110 | 2,247,110 |
| 2018 | 1,525,000 | 717,540 | 2,242,540 |
| 2019 | 1,655,000 | 659,613 | 2,314,613 |
| 2020 | 1,710,000 | 598,868 | 2,308,868 |
| 2021-2025 | 9,575,000 | 1,960,874 | 11,535,874 |
| 2026-2030 | 3,505,000 | 547,088 | 4,052,088 |
| 2031-2035 | 1,410,000 | 189,737 | 1,599,737 |
| 2036-2038 | 330,000 | 18,309 | 348,309 |
| Total | <u>\$22,420,000</u> | <u>\$ 6,288,766</u> | <u>\$ 28,708,766</u> |

Defeasance of Debt and Current and Advanced Refundings:

As noted above, refunding bonds have been issued to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The proceeds from these refunding bonds have been placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in HWEA's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. As of June 30, 2015 and 2014, the amount of bonds outstanding that are considered defeased is undeterminable.

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6. LONG-TERM DEBT, continued

Defeasance of Debt and Current and Advanced Refundings, continued:

Current and advance refundings have resulted in defeasance losses that are being amortized over the life of the refunding bonds. The unamortized losses at June 30, 2015 and 2014 are shown on the statement of net position as deferred refunding costs under Deferred Outflows of Resources. Amortization has been included in interest expense and was \$32,375 and \$9,312 for the years ended June 30, 2015 and 2014, respectively.

7. PENSION PLAN

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

Plan Description:

Substantially all HWEA employees participate in CERS, a multi-employer, cost sharing, defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement Systems, which issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at <https://kyret.ky.gov>.

Benefits Provided:

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

Contributions:

CERS plan members classified as nonhazardous hired prior to September 1, 2008, contribute 5% of their annual creditable compensation, and those hired on or after September 1, 2008, contribute 6%. For nonhazardous employees, HWEA contributed 17.67% of annual covered payroll for fiscal year 2015. Employees classified as hazardous hired prior to September 1, 2008, contribute 8% of their annual creditable compensation, and those hired on or after September 1, 2008, contribute 9%. HWEA had no employees classified as hazardous for years ended June 30, 2015 or 2014. The contribution requirements of plan members and HWEA are established and may be amended by the Kentucky Retirement Systems Board of Trustees. HWEA's contributions to CERS were \$487,244 for nonhazardous employees for the year ended June 30, 2015 and \$495,315 for the year ended June 30, 2014.

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7. PENSION PLAN, continued

Net Pension Liabilities:

At June 30, 2015 and 2014, HWEA reported a liability of \$3,708,000 and \$4,196,000, respectively, for its proportionate share of the net pension liability, all of which pertained to nonhazardous pensions. The net pension liability was measured as of June 30, 2014 and 2013, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. HWEA's proportion of the net pension liability was based on a projection of HWEA's long term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015 and 2014, HWEA's proportion was .114295% for nonhazardous pensions.

HWEA's net pension liability is shown on the Statement of Net Position as a noncurrent liability.

Actuarial Assumptions and Other Inputs:

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------|--|
| Inflation: | 3.50% |
| Salary increases: | 4.50%, average, including inflation |
| Investment rate of return: | 7.75%, net of pension plan investment, including inflation |

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005, to June 30, 2008.

Discount Rate:

- a. Discount rate: The discount rate used to measure the total pension liability was 7.75%.
- b. Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

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7. PENSION PLAN, continued

Discount Rate, continued:

- c. Long-term rate of return: The long-term expected rate of return on plan assets is reviewed as part of the regular experience studies every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
- d. Municipal bond rate: The discount rate determination does not use a municipal bond rate.
- e. Periods of projected benefit payments: Projected future benefit payments for all plan members were projected through 2116.
- f. Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|--------------------------|---|
| Domestic Equity | 30% | 8.45% |
| International Equity | 22% | 8.85% |
| Emerging Market Equity | 5% | 10.50% |
| Private Equity | 7% | 1.25% |
| Real Estate | 5% | 7.00% |
| Core US Fixed Income | 10% | 5.25% |
| High Yield US Fixed Income | 5% | 7.25% |
| Non-US Fixed Income | 5% | 5.50% |
| Commodities | 5% | 7.75% |
| TIPS | 5% | 5.00% |
| Cash | <u>1%</u> | 3.25% |
| Total | <u>100%</u> | |

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

7. PENSION PLAN, continued

Discount Rate, continued:

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

| | <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|--|------------------------|--------------------------------------|------------------------|
| <u>CERS Non-Hazardous: Discount rate</u> | 6.75% | 7.75% | 8.75% |
| Proportionate Share NPL | <u>\$4,880,000</u> | <u>\$3,708,000</u> | <u>\$2,673,000</u> |

Pension Plan Fiduciary Net Position:

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

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

For the year ended June 30, 2015, HWEA recognized pension expense of \$297,000.

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

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

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

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

7. PENSION PLAN, continued

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

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending June 30: | |
|----------------------|---------------------|
| 2016 | \$ (103,500) |
| 2017 | (103,500) |
| 2018 | (103,500) |
| 2019 | <u>(103,500)</u> |
| | <u>\$ (414,000)</u> |

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

At June 30, 2014, HWEA reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---------------------------------------|--------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ - |
| HWEA contributions subsequent to the measurement date of June 30, 2013 | <u>495,315</u> | <u>-</u> |
| Total | <u>\$ 495,315</u> | <u>\$ -</u> |

The \$495,315 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date of June 30, 2013, was recognized as a reduction of the net pension liability in the year ended June 30, 2015.

8. SEGMENT REPORTING

HWEA has low interest loans from the Kentucky Infrastructure Authority (KIA) to finance its water and sewer departments. The two departments are accounted for in a single fund, but KIA relies solely on the revenue generated by the individual activities for repayment. The Water Department operates the water supply systems for Hopkinsville, Pembroke, and Crofton. The Sewer Department operates the sewage treatment plants, sewage pumping stations, and collection systems for Hopkinsville, Pembroke, Crofton, and Oak Grove. Summary financial information for each department as of and for the years ended June 30, 2015 and 2014, are presented on the following page (separate reporting for the gas department didn't start until July 1, 2015).

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

8. SEGMENT REPORTING, continued

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

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

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

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

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

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

8. SEGMENT REPORTING, continued

| | <u>Water Department</u> | <u>Sewer Department</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------|----------------------|
| CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2014 | | | |
| Assets: | | | |
| Current assets | \$ 1,894,605 | \$ 5,059,298 | \$ 6,953,903 |
| Capital assets | 56,928,764 | 46,335,243 | 103,264,007 |
| Other assets | 4,950,529 | 407,113 | 5,357,642 |
| Deferred outflows of resources | 259,190 | 256,615 | 515,805 |
| Total assets and deferred outflows of resources | <u>64,033,088</u> | <u>52,058,269</u> | <u>116,091,357</u> |
| Liabilities: | | | |
| Current liabilities | 3,230,442 | 1,968,907 | 5,199,349 |
| Noncurrent liabilities | 39,357,988 | 27,615,858 | 66,973,846 |
| Total liabilities | <u>42,588,430</u> | <u>29,584,765</u> | <u>72,173,195</u> |
| Net position: | | | |
| Net investment in capital assets | 20,746,775 | 19,458,475 | 40,205,250 |
| Restricted | 1,376,718 | - | 1,376,718 |
| Unrestricted | (678,835) | 3,015,029 | 2,336,194 |
| Total net position | <u>\$ 21,444,658</u> | <u>\$ 22,473,504</u> | <u>\$ 43,918,162</u> |

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2014**

| | | | |
|---|----------------------|----------------------|----------------------|
| Operating revenues (pledged against debt) | \$ 6,747,976 | \$ 7,368,773 | \$ 14,116,749 |
| Depreciation expense | (1,835,926) | (2,013,198) | (3,849,124) |
| Other operating expenses | (3,623,976) | (3,941,577) | (7,565,553) |
| Operating income | <u>1,288,074</u> | <u>1,413,998</u> | <u>2,702,072</u> |
| Nonoperating revenues (expenses): | | | |
| Investment income | 47,070 | 27,790 | 74,860 |
| Other nonoperating income | 3,932 | 4,328 | 8,260 |
| Interest expense | (1,171,881) | (344,427) | (1,516,308) |
| Other nonoperating expense | (140,577) | - | (140,577) |
| Capital contributions | 141,650 | - | 141,650 |
| Transfers | 1,295,093 | (1,295,093) | - |
| Change in net position | <u>1,463,361</u> | <u>(193,404)</u> | <u>1,269,957</u> |
| Beginning net position - as restated | 19,981,297 | 22,666,908 | 42,648,205 |
| Ending net position | <u>\$ 21,444,658</u> | <u>\$ 22,473,504</u> | <u>\$ 43,918,162</u> |

CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2014

| | | | |
|--|---------------------|---------------------|----------------------|
| Net cash provided (used) by: | | | |
| Operating activities | \$ 4,546,928 | \$ 2,106,788 | \$ 6,653,716 |
| Capital and related financing activities | (728,875) | (2,233,357) | (2,962,232) |
| Investing activities | 52,330 | 56,586 | 108,916 |
| Net increase (decrease) | 3,870,383 | (69,983) | 3,800,400 |
| Beginning cash and cash equivalents | 1,911,326 | 4,603,584 | 6,514,910 |
| Ending cash and cash equivalents | <u>\$ 5,781,709</u> | <u>\$ 4,533,601</u> | <u>\$ 10,315,310</u> |

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

9. BUDGET

Bond ordinances require that HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for the year ended June 30, 2015, are as follows:

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--------------------------|---------------------|---------------------|--|
| Operating Revenues | \$14,832,250 | \$14,803,248 | \$ (29,002) |
| Other Operating Expenses | (8,034,505) | (8,012,593) | 21,912 |
| Depreciation Expense | <u>(3,955,250)</u> | <u>(3,914,704)</u> | <u>40,546</u> |
| Operating Income | 2,842,495 | 2,875,951 | 33,456 |
| Nonoperating Revenues | 30,400 | 145,401 | 115,001 |
| Nonoperating Expenses | <u>(1,834,400)</u> | <u>(1,743,851)</u> | <u>90,549</u> |
| Net Income | <u>\$ 1,038,495</u> | <u>\$ 1,277,501</u> | <u>\$ 239,006</u> |

10. CONTINGENCIES

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

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

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement of the grant monies to the granting agencies. HWEA management believes that disallowances, if any, will be immaterial.

11. RISK MANAGEMENT

HWEA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. HWEA carries commercial insurance for these types of risk of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

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

11. RISK MANAGEMENT, continued

HWEA's health insurance premiums are composed of a fixed and a variable portion. The variable portion is based on actual claims experienced during the year and fluctuates each month based on claims. Premiums accrued for health insurance are based on the year-to-date claims experience of HWEA. At June 30, 2015 and 2014, the claims liability was \$96,889 and \$56,910, respectively. Changes in the claims liability during the last two fiscal years are as follows:

| | <u>Balance at Beginning of Fiscal Year</u> | <u>Claims and Changes in Estimates</u> | <u>Claims Payments</u> | <u>Balance at End of Fiscal Year</u> |
|-----------|--|--|----------------------------|--|
| 2013-2014 | \$30,435 | \$ 396,742 | \$ 370,267 | \$56,910 |
| 2014-2015 | \$56,910 | \$1,056,203 | \$1,016,224 | \$96,889 |

12. CONSTRUCTION COMMITMENT

At June 30, 2015, HWEA had several material construction projects underway:

| <u>Project</u> | <u>Cost-to-Date</u> | <u>Estimated Cost to Complete</u> |
|--|---------------------|---------------------------------------|
| Water Tank Rehab Project | \$ 62,738 | \$ 1,574,000 |
| US41A Improvements & Interconnect | 113,186 | 1,530,800 |
| Westside Water Tank Project | 269,343 | 4,250,261 |
| Water Main Extension - Westside | 116,653 | 1,580,126 |
| Office Renovation | 12,377 | 417,205 |
| FTC 16" Water Main Extension | 191,053 | 4,250,000 |
| Natural Gas Project - Phase 1 | 587,061 | 1,020,000 |
| FTC 8" Natural Gas - Phase 2 | 502,850 | 11,568,700 |
| Oak Grove Hwy 115/911 Project | 52,623 | 25,000 |
| Oak Grove Village Mall Project | 9,600 | - |
| Rehab OG Pump Station & Sewer Extensions | 1,558,253 | 215,000 |
| Phase 7 Priority 2 Rehab | <u>3,759,052</u> | <u>227,700</u> |
| Total | <u>\$ 7,234,789</u> | <u>\$ 26,658,792</u> |

13. RECLASSIFICATIONS

Certain accounts in the June 30, 2014, financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2015, financial statements.

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

14. RELATED PARTY TRANSACTIONS

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

During the year ended June 30, 2014, the City of Hopkinsville issued a general obligation bond on behalf of HWEA (Series 2013B) to finance the construction of a 2MG water tank and water mains along Eagle Way Bypass and US41A.

See Note 6 for additional information on these transactions.

The City of Hopkinsville was awarded an Economic Development Initiative Special Projects Grant from the U.S. Department of Housing and Urban Development to help fund the natural gas project. For the year ended June 30, 2015, the City of Hopkinsville paid HWEA \$105,022 from this grant for reimbursement of legal fees relating to this project. No such reimbursement occurred for the year ended June 30, 2014.

15. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2014, HWEA implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment to GASB Statement No. 68*.

The implementation of those GASB statements resulted in a cumulative effect of change in accounting principle, which reduced HWEA's net position by \$3,700,685.

Additionally, implementation of the GASB statements also resulted in the recognition of net pension liability, pension expense, and deferred outflows and inflows of resources, as previously discussed in note 7.

16. SUBSEQUENT EVENT

Subsequent to the year ended June 30, 2015, HWEA entered into a contract with Cumberland Pipeline of Russell Springs, Kentucky for phase three construction of a twenty inch water main extension along US Highway 41A. This project is to be financed with \$1.5 million in proceeds from the 2013B general obligation bond that was issued by the City of Hopkinsville on behalf of HWEA during the year ended June 30, 2014, with additional financing to come from a \$350,000 grant awarded by the Kentucky Infrastructure Authority.

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

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

| | <u>2015</u> |
|---|--------------|
| <u>Non-hazardous:</u> | |
| HWEA's proportion of the net pension liability (asset) | 0.114295% |
| HWEA's proportionate share of the net pension liability (asset) | \$ 3,708,000 |
| HWEA's covered payroll | \$ 2,766,612 |
| HWEA's proportionate share of the net pension liability as a percentage of its covered payroll | 134.03% |
| Total pension plan's fiduciary net position | \$ 6,528,146 |
| Total pension plan's pension liability | \$ 9,772,523 |
| Total pension plan fiduciary net position as a percentage of the total pension liability | 66.80% |

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

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

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

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

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

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

Supporting Schedules

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

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | Hopkinsville | | | Pembroke | | Crofton | | Oak Grove | Eliminations | Totals |
|--|------------------|----------------|------------------|----------------|----------------|----------------|----------------|------------------|--------------|------------------|
| | Water | Sewer | Gas | Water | Sewer | Water | Sewer | Sewer | | |
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | | |
| Petty cash and change fund | \$ 750 | \$ 750 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,500 |
| Health claims fund | 81,140 | 81,140 | - | - | - | - | - | - | - | 162,280 |
| Employee reimbursement fund | 10,411 | - | - | - | - | - | - | - | - | 10,411 |
| Operation and maintenance fund | - | - | - | 228,679 | 228,679 | 515,344 | 515,344 | 3,628,871 | - | 5,116,917 |
| Total cash and cash equivalents | 92,301 | 81,890 | - | 228,679 | 228,679 | 515,344 | 515,344 | 3,628,871 | - | 5,291,108 |
| Customer receivables | 479,486 | 290,333 | - | 10,852 | 9,559 | 16,197 | 8,705 | 158,244 | - | 973,376 |
| Inventory | 312,826 | - | - | - | - | - | - | - | - | 312,826 |
| Prepaid insurance | 13,225 | 13,225 | - | - | - | - | - | - | - | 26,450 |
| Accrued interest on note receivable | - | 485 | - | - | - | - | - | - | - | 485 |
| Due from other divisions | - | - | - | - | - | - | - | - | - | - |
| Total current assets | 897,838 | 385,933 | - | 239,531 | 238,238 | 531,541 | 524,049 | 3,787,115 | - | 6,604,245 |
| Restricted assets | | | | | | | | | | |
| Bond and interest redemption fund | | | | | | | | | | |
| Cash and cash equivalents | 1,219,893 | - | - | - | - | - | - | - | - | 1,219,893 |
| Investments | 204,694 | - | - | - | - | - | - | - | - | 204,694 |
| Accrued interest | 768 | - | - | - | - | - | - | - | - | 768 |
| Subtotal | 1,425,355 | - | - | - | - | - | - | - | - | 1,425,355 |
| Construction fund | | | | | | | | | | |
| Cash and cash equivalents | 3,701,731 | - | 1,931,049 | - | - | - | - | - | - | 5,632,780 |
| Accrued interest | - | - | - | - | - | - | - | - | - | - |
| Subtotal | 3,701,731 | - | 1,931,049 | - | - | - | - | - | - | 5,632,780 |
| Unemployment fund | | | | | | | | | | |
| Investments | 12,860 | 12,860 | - | - | - | - | - | - | - | 25,720 |
| Accrued interest | 94 | 94 | - | - | - | - | - | - | - | 188 |
| Subtotal | 12,954 | 12,954 | - | - | - | - | - | - | - | 25,908 |
| Total restricted assets | 5,140,040 | 12,954 | 1,931,049 | - | - | - | - | - | - | 7,084,043 |

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

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, (continued)

| | <u>Hopkinsville</u> | | | <u>Pembroke</u> | | <u>Crofton</u> | | <u>Oak Grove</u> | <u>Eliminations</u> | <u>Totals</u> |
|---|----------------------|----------------------|---------------------|-------------------|-------------------|---------------------|-------------------|----------------------|---------------------|-----------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Gas</u> | <u>Water</u> | <u>Sewer</u> | <u>Water</u> | <u>Sewer</u> | <u>Sewer</u> | | |
| Property, plant and equipment | | | | | | | | | | |
| Property and plant | 82,503,457 | 71,817,306 | - | 789,114 | 268,358 | 766,913 | 1,254,710 | 8,145,841 | - | 165,545,699 |
| General plant | 1,288,213 | 1,719,402 | - | - | - | - | - | - | - | 3,007,615 |
| Unclassified plant | <u>759,278</u> | <u>5,385,599</u> | <u>1,089,912</u> | - | - | - | - | - | - | <u>7,234,789</u> |
| | 84,550,948 | 78,922,307 | 1,089,912 | 789,114 | 268,358 | 766,913 | 1,254,710 | 8,145,841 | - | 175,788,103 |
| Less accumulated depreciation | <u>29,522,197</u> | <u>36,740,143</u> | - | <u>206,016</u> | <u>178,716</u> | <u>246,239</u> | <u>830,020</u> | <u>1,489,518</u> | - | <u>69,212,849</u> |
| Net property, plant and equipment | <u>55,028,751</u> | <u>42,182,164</u> | <u>1,089,912</u> | <u>583,098</u> | <u>89,642</u> | <u>520,674</u> | <u>424,690</u> | <u>6,656,323</u> | - | <u>106,575,254</u> |
| Notes receivable | | | | | | | | | | |
| Receivable - CCBE | - | 122,632 | - | - | - | - | - | - | - | 122,632 |
| Receivable - Hopk Ind. Fdn. | - | 193,826 | - | - | - | - | - | - | - | 193,826 |
| Other receivables | | | | | | | | | | |
| Receivable - US Army Corp of Engineers | 158,042 | - | 282,895 | - | - | - | - | - | - | 440,937 |
| Receivable - Other | 1,907 | - | - | - | - | - | - | - | - | 1,907 |
| Receivable - Crofton division | <u>133,000</u> | - | - | - | - | - | - | - | (133,000) | - |
| Total notes and other receivables | <u>292,949</u> | <u>316,458</u> | <u>282,895</u> | - | - | - | - | - | (133,000) | <u>759,302</u> |
| Deferred outflows of resources | | | | | | | | | | |
| Pension | 234,811 | 252,433 | - | - | - | - | - | - | - | 487,244 |
| Deferred refunding costs | <u>674,140</u> | - | - | - | - | - | - | 20,770 | - | <u>694,910</u> |
| Total deferred outflows of resources | <u>908,951</u> | <u>252,433</u> | - | - | - | - | - | 20,770 | - | <u>1,182,154</u> |
| Total assets and deferred outflows of resources | <u>\$ 62,268,529</u> | <u>\$ 43,149,942</u> | <u>\$ 3,303,856</u> | <u>\$ 822,629</u> | <u>\$ 327,880</u> | <u>\$ 1,052,215</u> | <u>\$ 948,739</u> | <u>\$ 10,464,208</u> | <u>\$ (133,000)</u> | <u>\$ 122,204,998</u> |

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | Hopkinsville | | | Pembroke | | Crofton | | Oak Grove | Eliminations | Totals |
|---|----------------------|----------------------|---------------------|-------------------|-------------------|---------------------|-------------------|----------------------|---------------------|-----------------------|
| | Water | Sewer | Gas | Water | Sewer | Water | Sewer | Sewer | | |
| Current liabilities | | | | | | | | | | |
| Current portion of long-term debt | \$ 1,148,387 | \$ 1,194,753 | \$ - | \$ - | \$ 13,267 | \$ 16,599 | \$ 16,598 | \$ 130,000 | \$ - | \$ 2,519,604 |
| Payable to City of Hopkinsville, current portion | 1,115,000 | 120,000 | - | - | - | - | - | - | - | 1,235,000 |
| Customer deposits | 89,178 | - | - | - | - | - | - | - | - | 89,178 |
| Accrued interest | 211,421 | 32,782 | 13,217 | 27 | - | 38 | 38 | 30,497 | - | 288,020 |
| Construction retainage payable | - | 289,158 | - | - | - | - | - | - | - | 289,158 |
| Accounts payable | 493,662 | 224,907 | - | 877 | - | 740 | - | - | - | 720,186 |
| Accounts payable - restricted | 77,613 | - | - | - | - | - | - | - | - | 77,613 |
| Construction contracts payable | 32,404 | 1,072,633 | 244,363 | - | - | - | - | - | - | 1,349,400 |
| Accrued salaries and compensated absences | 154,147 | 168,342 | - | - | - | - | - | - | - | 322,489 |
| Due to other divisions | - | - | - | - | - | - | - | - | - | - |
| Total current liabilities | 3,321,812 | 3,102,575 | 257,580 | 904 | 13,267 | 17,377 | 16,636 | 160,497 | - | 6,890,648 |
| Long-term debt | | | | | | | | | | |
| Revenue bonds payable, net of current portion | 2,798,714 | - | - | - | - | - | - | 425,000 | - | 3,223,714 |
| KIA loans payable, net of current portion | 13,083,122 | 19,140,122 | - | - | 13,428 | 58,619 | 58,619 | 6,311,739 | - | 38,665,649 |
| Revenue leases - Planters | 158,042 | - | 282,895 | - | - | - | - | - | - | 440,937 |
| Payable to City of Hopkinsville, net of current portion | 19,717,204 | 1,515,433 | 1,707,902 | - | - | - | - | - | - | 22,940,539 |
| Net pension liability | 1,786,946 | 1,921,054 | - | - | - | - | - | - | - | 3,708,000 |
| Crofton division-note payable | - | - | - | - | - | 133,000 | - | - | (133,000) | - |
| Compensated absences, net of current portion | 93,146 | 102,708 | - | - | - | - | - | - | - | 195,854 |
| Total long-term debt | 37,637,174 | 22,679,317 | 1,990,797 | - | 13,428 | 191,619 | 58,619 | 6,736,739 | (133,000) | 69,174,693 |
| Total liabilities | 40,958,986 | 25,781,892 | 2,248,377 | 904 | 26,695 | 208,996 | 75,255 | 6,897,236 | (133,000) | 76,065,341 |
| Deferred inflows of resources | | | | | | | | | | |
| Deferred revenue - USACE | 158,042 | - | 282,895 | - | - | - | - | - | - | 440,937 |
| Pension | 199,513 | 214,487 | - | - | - | - | - | - | - | 414,000 |
| Total deferred inflows of resources | 357,555 | 214,487 | 282,895 | - | - | - | - | - | - | 854,937 |
| Net Position | | | | | | | | | | |
| Net investment in capital assets | 21,193,707 | 18,850,065 | 502,906 | 583,098 | 62,947 | 445,456 | 349,473 | (189,646) | - | 41,798,006 |
| Restricted | | | | | | | | | | |
| Capital asset acquisition | 68,306 | - | - | - | - | - | - | - | - | 68,306 |
| Debt reserves | 1,386,982 | - | - | - | - | - | - | - | - | 1,386,982 |
| Unrestricted | (1,697,007) | (1,696,502) | 269,678 | 238,627 | 238,238 | 397,763 | 524,011 | 3,756,618 | - | 2,031,426 |
| Total net position | 20,951,988 | 17,153,563 | 772,584 | 821,725 | 301,185 | 843,219 | 873,484 | 3,566,972 | - | 45,284,720 |
| Total liabilities, deferred inflows of resources, and net position | \$ 62,268,529 | \$ 43,149,942 | \$ 3,303,856 | \$ 822,629 | \$ 327,880 | \$ 1,052,215 | \$ 948,739 | \$ 10,464,208 | \$ (133,000) | \$ 122,204,998 |

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

| | Hopkinsville | | | Pembroke | | Crofton | | Oak Grove | Eliminations | Totals |
|---|---------------|---------------|------------|------------|------------|------------|------------|--------------|--------------|---------------|
| | Water | Sewer | Gas | Water | Sewer | Water | Sewer | Sewer | | |
| Operating revenues | \$ 7,005,382 | \$ 5,823,188 | \$ - | \$ 116,939 | \$ 120,301 | \$ 205,179 | \$ 112,599 | \$ 1,419,660 | \$ - | \$ 14,803,248 |
| Operating expenses | | | | | | | | | | |
| Water source of supply | 349,798 | - | - | - | - | - | - | - | - | 349,798 |
| Water purification | 1,110,026 | - | - | 288 | - | 22,982 | - | - | - | 1,133,296 |
| Water distribution | 478,616 | - | - | 24,546 | - | 32,228 | - | - | - | 535,390 |
| Sewerage plant | - | 1,175,644 | - | - | 7,870 | - | 9,953 | 750,821 | - | 1,944,288 |
| Sewerage mains and laterals | - | 340,100 | - | - | 35,519 | - | 22,982 | 14,372 | - | 412,973 |
| Administrative and general | 1,731,247 | 1,714,455 | - | 1,647 | 1,858 | 3,969 | 2,731 | - | - | 3,455,907 |
| Technical services | 89,992 | 90,949 | - | - | - | - | - | - | - | 180,941 |
| Depreciation | 1,797,937 | 1,809,851 | - | 30,964 | 5,817 | 16,523 | 11,638 | 241,974 | - | 3,914,704 |
| Total operating expenses | 5,557,616 | 5,130,999 | - | 57,445 | 51,064 | 75,702 | 47,304 | 1,007,167 | - | 11,927,297 |
| Income from operations | 1,447,766 | 692,189 | - | 59,494 | 69,237 | 129,477 | 65,295 | 412,493 | - | 2,875,951 |
| Non-operating revenues (expenses) | | | | | | | | | | |
| Interest revenue | 31,635 | 26,854 | - | - | - | - | - | - | - | 58,489 |
| Gain (loss) on sale of fixed assets | 8,758 | 11,446 | - | - | - | - | - | (5,333) | - | 14,871 |
| Intergovernmental donation | - | - | - | - | - | - | - | - | - | - |
| Amortization of deferred refunding costs | (40,973) | - | - | - | - | - | - | (716) | - | (41,689) |
| Amortization of debt discounts and premiums | 71,333 | - | 176 | - | - | - | - | 532 | - | 72,041 |
| Bond issuance costs | (151,450) | - | (60,780) | - | - | - | - | (47,172) | - | (259,402) |
| Interest expense | (1,002,406) | (348,578) | - | - | (543) | (563) | (563) | (90,107) | - | (1,442,760) |
| Total non-operating revenues (expenses) | (1,083,103) | (310,278) | (60,604) | - | (543) | (563) | (563) | (142,796) | - | (1,598,450) |
| Income (loss) before contributions, and operating transfers | 364,663 | 381,911 | (60,604) | 59,494 | 68,694 | 128,914 | 64,732 | 269,697 | - | 1,277,501 |
| Capital contributions | | | | | | | | | | |
| Capital assets provided by developers | 89,057 | - | - | - | - | - | - | - | - | 89,057 |
| Grant income | - | - | - | - | - | - | - | - | - | - |
| Transfers (to) from | | | | | | | | | | |
| Operating transfers in (out) | 480,969 | (2,139,808) | 833,188 | (17,640) | 17,790 | 66,817 | (43,788) | 802,472 | - | - |
| Change in net position | 934,689 | (1,757,897) | 772,584 | 41,854 | 86,484 | 195,731 | 20,944 | 1,072,169 | - | 1,366,558 |
| Net position - beginning of year as restated | 20,017,299 | 18,911,460 | - | 779,871 | 214,701 | 647,488 | 852,540 | 2,494,803 | - | 43,918,162 |
| Net position - end of year | \$ 20,951,988 | \$ 17,153,563 | \$ 772,584 | \$ 821,725 | \$ 301,185 | \$ 843,219 | \$ 873,484 | \$ 3,566,972 | \$ - | \$ 45,284,720 |

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT
For the year ended June 30, 2015**

| Descriptions | ASSETS | | | ACCUMULATED DEPRECIATION | | | | Depreciated values June 30, 2015 | |
|-------------------------------|--------------------------|---------------------|------------------|--------------------------|--------------------------|---------------------|------------------|-------------------------------------|--------------------------|
| | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Balance June 30, 2014 | Additions | Retirements | | Balance June 30, 2015 |
| WATER: | | | | | | | | | |
| Land | \$ 1,230,391 | \$ - | \$ - | \$ 1,230,391 | \$ - | \$ - | \$ - | \$ - | \$ 1,230,391 |
| Structures | 2,897,886 | 34,079 | - | 2,931,965 | 1,632,569 | 56,277 | - | 1,688,846 | 1,243,119 |
| Elevated tanks | 3,698,757 | - | - | 3,698,757 | 2,139,881 | 113,733 | - | 2,253,614 | 1,445,143 |
| Transmission mains | 196,596 | - | - | 196,596 | 196,596 | - | - | 196,596 | - |
| Distribution mains | 15,948,019 | 234,566 | - | 16,182,585 | 7,722,310 | 279,461 | - | 8,001,771 | 8,180,814 |
| Services | 2,885,195 | 88,181 | - | 2,973,376 | 1,442,780 | 59,197 | - | 1,501,977 | 1,471,399 |
| Meters and installation | 2,659,269 | 227,708 | - | 2,886,977 | 2,314,107 | 55,265 | - | 2,369,372 | 517,605 |
| Hydrants | 947,465 | 12,657 | - | 960,122 | 500,759 | 15,965 | - | 516,724 | 443,398 |
| Purification structures | 18,262,628 | - | - | 18,262,628 | 4,274,102 | 570,191 | - | 4,844,293 | 13,418,335 |
| Purification equipment | 4,621,025 | - | - | 4,621,025 | 4,069,253 | 161,452 | - | 4,230,705 | 390,320 |
| Cast iron pipe lines | 44,436 | - | - | 44,436 | 44,436 | - | - | 44,436 | - |
| Electric pumping equipment | 427,334 | - | - | 427,334 | 347,665 | 14,494 | - | 362,159 | 65,175 |
| Auxiliary power units | 128,790 | - | - | 128,790 | 128,790 | - | - | 128,790 | - |
| Quarry - raw water supply | 29,459,597 | 49,239 | - | 29,508,836 | 2,706,555 | 433,499 | - | 3,140,054 | 26,368,782 |
| Total water plant | 83,407,388 | 646,430 | - | 84,053,818 | 27,519,803 | 1,759,534 | - | 29,279,337 | 54,774,481 |
| General | | | | | | | | | |
| Transportation equipment | 309,542 | 182,169 | 26,675 | 465,036 | 129,209 | 35,966 | 24,485 | 140,690 | 324,346 |
| Tractors & backhoes | 134,721 | 48,845 | - | 183,566 | 80,085 | 10,863 | - | 90,948 | 92,618 |
| General equipment | 304,321 | 54,735 | 4,000 | 355,056 | 257,308 | 14,057 | 4,000 | 267,365 | 87,691 |
| Office furniture and fixtures | 68,628 | 10,123 | - | 78,751 | 31,337 | 7,322 | - | 38,659 | 40,092 |
| Two-way radio equipment | 3,393 | - | - | 3,393 | 2,979 | 127 | - | 3,106 | 287 |
| Computer equipment | 202,250 | 11,190 | 5,363 | 208,077 | 142,157 | 17,552 | 5,363 | 154,346 | 53,731 |
| Total general plant | 1,022,855 | 307,062 | 36,038 | 1,293,879 | 643,075 | 85,887 | 33,848 | 695,114 | 598,765 |
| Unclassified plant | | | | | | | | | |
| Construction in progress | 398,324 | 424,506 | 63,552 | 759,278 | - | - | - | - | 759,278 |
| Total water plant | \$ 84,828,567 | \$ 1,377,998 | \$ 99,590 | \$ 86,106,975 | \$ 28,162,878 | \$ 1,845,421 | \$ 33,848 | \$ 29,974,451 | \$ 56,132,524 |

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT (continued)
For the year ended June 30, 2015**

| Descriptions | ASSETS | | | ACCUMULATED DEPRECIATION | | | | Depreciated values June 30, 2015 | |
|-------------------------------|--------------------------|---------------------|---------------------|--------------------------|--------------------------|---------------------|------------------|-------------------------------------|--------------------------|
| | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Balance June 30, 2014 | Additions | Retirements | | Balance June 30, 2015 |
| SEWERAGE: | | | | | | | | | |
| Land | \$ 341,449 | \$ - | \$ - | \$ 341,449 | \$ - | \$ - | \$ - | \$ - | \$ 341,449 |
| Buildings | 3,654,580 | 123,411 | 6,424 | 3,771,567 | 1,213,364 | 111,844 | 1,285 | 1,323,923 | 2,447,644 |
| Wastewater treatment plants | | | | | | | | | |
| Northside | 8,338,082 | - | - | 8,338,082 | 6,541,213 | 210,351 | - | 6,751,564 | 1,586,518 |
| Hammond-Wood | 11,823,931 | - | - | 11,823,931 | 8,228,401 | 376,934 | - | 8,605,335 | 3,218,596 |
| Machinery and equipment | 2,656,226 | - | - | 2,656,226 | 2,243,309 | 114,463 | - | 2,357,772 | 298,454 |
| Pumping stations | 9,208,238 | 4,400,424 | - | 13,608,662 | 2,523,956 | 335,297 | - | 2,859,253 | 10,749,409 |
| Mains and laterals | 40,787,409 | 33,637 | - | 40,821,046 | 15,586,811 | 772,291 | - | 16,359,102 | 24,461,944 |
| Total sewerage plant | <u>76,809,915</u> | <u>4,557,472</u> | <u>6,424</u> | <u>81,360,963</u> | <u>36,337,054</u> | <u>1,921,180</u> | <u>1,285</u> | <u>38,256,949</u> | <u>43,104,014</u> |
| General | | | | | | | | | |
| Transportation equipment | 537,955 | 154,071 | 20,675 | 671,351 | 217,343 | 49,699 | 18,585 | 248,457 | 422,894 |
| Tractors & backhoes | 144,349 | 53,720 | - | 198,069 | 42,033 | 18,925 | - | 60,958 | 137,111 |
| General equipment | 678,227 | 45,797 | 11,628 | 712,396 | 446,338 | 56,708 | 11,006 | 492,040 | 220,356 |
| Office furniture and fixtures | 72,024 | 10,124 | - | 82,148 | 36,957 | 7,725 | - | 44,682 | 37,466 |
| Two-way radio equipment | 3,393 | - | - | 3,393 | 2,979 | 127 | - | 3,106 | 287 |
| Computer equipment | 173,777 | 8,883 | 5,363 | 177,297 | 122,651 | 14,918 | 5,363 | 132,206 | 45,091 |
| Total general plant | <u>1,609,725</u> | <u>272,595</u> | <u>37,666</u> | <u>1,844,654</u> | <u>868,301</u> | <u>148,102</u> | <u>34,954</u> | <u>981,449</u> | <u>863,205</u> |
| Unclassified plant | | | | | | | | | |
| Construction in progress | <u>5,120,960</u> | <u>4,755,326</u> | <u>4,490,687</u> | <u>5,385,599</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,385,599</u> |
| Total sewer plant | <u>\$ 83,540,600</u> | <u>\$ 9,585,393</u> | <u>\$ 4,534,777</u> | <u>\$ 88,591,216</u> | <u>\$ 37,205,355</u> | <u>\$ 2,069,282</u> | <u>\$ 36,239</u> | <u>\$ 39,238,398</u> | <u>\$ 49,352,818</u> |
| NATURAL GAS: | | | | | | | | | |
| Unclassified | | | | | | | | | |
| Construction in progress | <u>263,072</u> | <u>826,840</u> | <u>-</u> | <u>1,089,912</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,089,912</u> |
| Total natural gas | <u>\$ 263,072</u> | <u>\$ 826,840</u> | <u>\$ -</u> | <u>\$ 1,089,912</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,089,912</u> |

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY OF SINKING FUND REQUIREMENTS
June 30, 2015**

| Bonds Due Fiscal Year | 1998 | 2005 B | 2010B | 2013 B | 2014 B | 2014 C | 2015 A | Total Debt Service |
|----------------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|----------------------|-------------------------------|
| 2016 | \$ 99,313 | \$ 163,809 | \$ 261,458 | \$ 255,812 | \$ 52,868 | \$ 162,147 | \$ 1,588,800 | \$ 2,584,207 |
| 2017 | 95,750 | 163,000 | 261,738 | 253,112 | 52,868 | 156,330 | 1,784,800 | 2,767,598 |
| 2018 | 97,150 | - | 261,626 | 254,662 | 52,868 | 150,010 | 1,785,000 | 2,601,316 |
| 2019 | 98,230 | - | 262,453 | 255,387 | 117,381 | 153,745 | 1,788,100 | 2,675,296 |
| 2020 | 99,065 | - | 263,776 | 251,037 | 116,406 | 152,425 | 1,789,000 | 2,671,709 |
| 2021 | 99,655 | - | 262,884 | 251,612 | 115,106 | 155,025 | 1,787,700 | 2,671,982 |
| 2022 | - | - | 262,929 | 252,037 | 118,419 | 152,525 | 1,789,100 | 2,575,010 |
| 2023 | - | - | 262,659 | 252,112 | 116,494 | 153,775 | 1,788,100 | 2,573,140 |
| 2024 | - | - | 260,574 | 251,831 | 114,394 | 149,875 | 1,784,700 | 2,561,374 |
| 2025 | - | - | 258,737 | 251,175 | 117,219 | 145,975 | 1,788,700 | 2,561,806 |
| 2026 | - | - | 259,127 | 255,050 | 114,969 | 107,075 | 1,785,000 | 2,521,221 |
| 2027 | - | - | 261,139 | 253,477 | 117,644 | 89,225 | - | 721,485 |
| 2028 | - | - | 261,540 | 251,540 | 115,244 | 111,825 | - | 740,149 |
| 2029 | - | - | 261,280 | 254,025 | 117,716 | 108,413 | - | 741,434 |
| 2030 | - | - | 130,500 | 255,825 | 115,060 | - | - | 501,385 |
| 2031 | - | - | - | 251,787 | 117,325 | - | - | 369,112 |
| 2032 | - | - | - | 251,887 | 119,256 | - | - | 371,143 |
| 2033 | - | - | - | 251,537 | 115,931 | - | - | 367,468 |
| 2034 | - | - | - | 255,631 | 117,518 | - | - | 373,149 |
| 2035 | - | - | - | - | 118,865 | - | - | 118,865 |
| 2036 | - | - | - | - | 115,059 | - | - | 115,059 |
| 2037 | - | - | - | - | 116,162 | - | - | 116,162 |
| 2038 | - | - | - | - | 117,088 | - | - | 117,088 |
| | <u>\$ 589,163</u> | <u>\$ 326,809</u> | <u>\$ 3,792,420</u> | <u>\$ 4,809,536</u> | <u>\$ 2,491,860</u> | <u>\$ 1,948,370</u> | <u>\$ 19,459,000</u> | <u>\$ 33,417,158</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, 2015, is \$2,767,598. The HWEA is setting aside funds to meet this requirement.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
For the years ended June 30, 2015 and 2014

| | <u>2015</u> | | <u>2014</u> | |
|-------------------------------------|---------------------|-------------------|---------------------|-------------------|
| | Amount | % of Net Revenues | Amount | % of Net Revenues |
| Water Source of Supply | | | | |
| Labor | \$ - | 0.00% | \$ - | 0.00% |
| Supplies | 1,817 | 0.01% | 1,572 | 0.01% |
| Utilities | 343,937 | 2.32% | 304,256 | 2.16% |
| Grounds and maintenance | 4,044 | 0.03% | 5,162 | 0.04% |
| Total water source of supply | <u>349,798</u> | <u>2.36%</u> | <u>310,990</u> | <u>2.20%</u> |
| Water Purification | | | | |
| Supervision | - | 0.00% | - | 0.00% |
| Labor | 388,953 | 2.63% | 355,350 | 2.52% |
| Chemicals | 264,532 | 1.79% | 178,824 | 1.27% |
| Maintenance to structures | 6,835 | 0.05% | 1,601 | 0.01% |
| Maintenance to equipment | 17,771 | 0.12% | 42,105 | 0.30% |
| Supplies | 19,535 | 0.13% | 21,707 | 0.15% |
| Maintenance to reservoirs and tanks | 13,572 | 0.09% | 5,801 | 0.04% |
| Utilities | 326,820 | 2.21% | 312,482 | 2.21% |
| Training and education | 1,433 | 0.01% | 1,769 | 0.01% |
| Laboratory work | 18,842 | 0.13% | 13,186 | 0.09% |
| Laboratory supplies and expense | 20,960 | 0.14% | 26,242 | 0.19% |
| Emergency generators | 8,778 | 0.06% | 11,554 | 0.08% |
| Grounds and maintenance | 9,352 | 0.06% | 5,733 | 0.04% |
| Professional services | 5,211 | 0.04% | 31,440 | 0.22% |
| Transportation expense | 30,702 | 0.21% | 32,015 | 0.23% |
| Miscellaneous | - | 0.00% | 168 | 0.00% |
| Total water purification | <u>1,133,296</u> | <u>7.66%</u> | <u>1,039,977</u> | <u>7.37%</u> |
| Water Distribution | | | | |
| Supervision | - | 0.00% | - | 0.00% |
| Labor | 340,882 | 2.30% | 336,023 | 2.38% |
| Supplies | 114,535 | 0.77% | 169,358 | 1.20% |
| Repairs to structures | - | 0.00% | - | 0.00% |
| Repairs to distribution mains | 37,595 | 0.25% | 34,575 | 0.24% |
| Repairs to services | - | 0.00% | - | 0.00% |
| Repair to meters | - | 0.00% | - | 0.00% |
| Removing and resetting meters | - | 0.00% | - | 0.00% |
| Repairs to fire hydrants | 579 | 0.00% | 1,945 | 0.01% |
| Repairs to equipment | 313 | 0.00% | 246 | 0.00% |
| Transportation expense | 28,883 | 0.20% | 41,869 | 0.30% |
| Grounds and maintenance | 3,316 | 0.02% | 752 | 0.01% |
| Utilities | 3,027 | 0.02% | 3,051 | 0.02% |
| Training, education and licenses | 1,456 | 0.01% | 433 | 0.00% |
| Small tools | 4,804 | 0.03% | 3,379 | 0.02% |
| Miscellaneous | - | 0.00% | - | 0.00% |
| Total water distribution | <u>535,390</u> | <u>3.62%</u> | <u>591,631</u> | <u>4.19%</u> |
| Subtotal carried forward | <u>\$ 2,018,484</u> | <u>13.64%</u> | <u>\$ 1,942,598</u> | <u>13.76%</u> |

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES (continued)
For the years ended June 30, 2015 and 2014

| | <u>2015</u> | | <u>2014</u> | |
|---|----------------------------|--------------------------|----------------------------|--------------------------|
| | <u>Amount</u> | <u>% of Net Revenues</u> | <u>Amount</u> | <u>% of Net Revenues</u> |
| Subtotal carried forward | <u>\$ 2,018,484</u> | <u>13.64%</u> | <u>\$ 1,942,598</u> | <u>13.76%</u> |
| Water Technical Services | | | | |
| Labor | 74,855 | 0.51% | 80,727 | 0.57% |
| Supplies | 10,004 | 0.07% | 6,928 | 0.05% |
| Training, education and licenses | 491 | 0.00% | 82 | 0.00% |
| Transportation expense | 4,642 | 0.03% | 5,132 | 0.04% |
| Miscellaneous | <u>-</u> | <u>0.00%</u> | <u>-</u> | <u>0.00%</u> |
| Total water technical services | <u>89,992</u> | <u>0.61%</u> | <u>92,869</u> | <u>0.66%</u> |
| Water Administrative and General | | | | |
| Commissioners' fees | - | 0.00% | - | 0.00% |
| Office salaries | 260,234 | 1.76% | 261,781 | 1.85% |
| Customer service salaries | 207,797 | 1.40% | 231,806 | 1.64% |
| Employee benefits | 744,238 | 5.03% | 636,415 | 4.51% |
| Office supplies | 63,503 | 0.43% | 63,133 | 0.45% |
| Postage | 16,933 | 0.11% | 16,125 | 0.11% |
| Telephone | 22,436 | 0.15% | 24,782 | 0.18% |
| Insurance and bonds | 150,512 | 1.02% | 163,675 | 1.16% |
| Professional services | 34,424 | 0.23% | 24,603 | 0.17% |
| Safety program and drug screening | 13,051 | 0.09% | 13,384 | 0.09% |
| Office building maintenance | 10,020 | 0.07% | 13,792 | 0.10% |
| Bad debts, net | 111,201 | 0.75% | 30,254 | 0.21% |
| Training, education and licenses | 7,953 | 0.05% | 2,532 | 0.02% |
| Transportation expense | 12,882 | 0.09% | 15,291 | 0.11% |
| REZ and CCWD rebate payments | 4,857 | 0.03% | 11,711 | 0.08% |
| Utilities | 23,352 | 0.16% | 24,011 | 0.17% |
| Meetings and events | 4,991 | 0.03% | 7,898 | 0.06% |
| Advertising, donations, and memberships | 44,650 | 0.30% | 42,338 | 0.30% |
| Miscellaneous | <u>3,831</u> | <u>0.03%</u> | <u>4,977</u> | <u>0.04%</u> |
| Total water administrative and general | <u>1,736,865</u> | <u>11.73%</u> | <u>1,588,508</u> | <u>11.25%</u> |
| Total water operating expense other than depreciation | <u><u>\$ 3,845,341</u></u> | <u><u>25.98%</u></u> | <u><u>\$ 3,623,975</u></u> | <u><u>25.67%</u></u> |

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES (continued)
For the years ended June 30, 2015 and 2014

| | <u>2015</u> | | <u>2014</u> | |
|--|---------------------|-------------------|---------------------|-------------------|
| | Amount | % of Net Revenues | Amount | % of Net Revenues |
| Wastewater Treatment Plant | | | | |
| Supervision | \$ - | 0.00% | \$ - | 0.00% |
| Labor | 611,547 | 4.13% | 548,226 | 3.88% |
| Chemicals and materials | 74,658 | 0.50% | 18,670 | 0.13% |
| Supplies and tools | 25,709 | 0.17% | 13,206 | 0.09% |
| Lights, power, water, and fuel oil | 572,856 | 3.87% | 636,425 | 4.51% |
| Transportation expense | 24,585 | 0.17% | 37,110 | 0.26% |
| Repairs - machinery and equipment | 96,370 | 0.65% | 102,667 | 0.73% |
| Repairs - buildings | 10,799 | 0.07% | 7,596 | 0.05% |
| Maintenance of pump stations | 97,360 | 0.66% | 55,127 | 0.39% |
| Laboratory work | 24,353 | 0.16% | 24,966 | 0.18% |
| Laboratory supplies and expense | 23,072 | 0.16% | 18,461 | 0.13% |
| Permit - pretreatment compliance | - | 0.00% | - | 0.00% |
| Sludge disposal | 331,157 | 2.24% | 310,123 | 2.20% |
| Training, education and licenses | 7,873 | 0.05% | 3,333 | 0.02% |
| Professional services | 20,358 | 0.14% | - | 0.00% |
| Billing and collection expense | 23,591 | 0.16% | 23,834 | 0.17% |
| Miscellaneous | - | 0.00% | 272 | 0.00% |
| | <u>1,944,288</u> | <u>13.13%</u> | <u>1,800,016</u> | <u>12.75%</u> |
| Total wastewater treatment plant | | | | |
| Wastewater Mains and Laterals | | | | |
| Supervision | - | 0.00% | - | 0.00% |
| Labor | 231,490 | 1.56% | 223,996 | 1.59% |
| Supplies and tools | 77,516 | 0.52% | 78,478 | 0.56% |
| Repairs - mains and laterals | 23,086 | 0.16% | 18,329 | 0.13% |
| Repairs - truck and sewerage equipment | 4,730 | 0.03% | 329 | 0.00% |
| Transportation expense | 29,091 | 0.20% | 42,071 | 0.30% |
| Utilities | 3,027 | 0.02% | 3,053 | 0.02% |
| Grounds and maintenance | 3,316 | 0.02% | 790 | 0.01% |
| Training, education and licenses | 1,503 | 0.01% | 245 | 0.00% |
| Developer rebates | 39,214 | 0.26% | 35,520 | 0.25% |
| | <u>412,973</u> | <u>2.79%</u> | <u>402,811</u> | <u>2.85%</u> |
| Total wastewater mains and laterals | | | | |
| Wastewater Technical Services | | | | |
| Labor | 76,147 | 0.51% | 95,922 | 0.68% |
| Supplies | 9,207 | 0.06% | 8,522 | 0.06% |
| Training, education and licenses | 953 | 0.01% | 269 | 0.00% |
| Transportation expense | 4,642 | 0.03% | 5,132 | 0.04% |
| Miscellaneous | - | 0.00% | - | 0.00% |
| | <u>90,949</u> | <u>0.61%</u> | <u>109,845</u> | <u>0.78%</u> |
| Total wastewater technical services | | | | |
| Subtotal carried forward | <u>\$ 2,448,210</u> | <u>16.54%</u> | <u>\$ 2,312,672</u> | <u>16.38%</u> |

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
WATER, SEWER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF OPERATING EXPENSES (continued)
For the years ended June 30, 2015 and 2014**

| | <u>2015</u> | | <u>2014</u> | |
|---|---------------------|------------------------------|---------------------|------------------------------|
| | <u>Amount</u> | <u>% of Net Revenues</u> | <u>Amount</u> | <u>% of Net Revenues</u> |
| Subtotal carried forward | <u>\$ 2,448,210</u> | <u>16.54%</u> | <u>\$ 2,312,672</u> | <u>16.38%</u> |
| Sewerage Administrative and General | | | | |
| Commissioners' fees | - | 0.00% | - | 0.00% |
| Office salaries | 259,734 | 1.75% | 262,566 | 1.86% |
| Customer service salaries | 206,401 | 1.39% | 229,965 | 1.63% |
| Labor - camera crew | - | 0.00% | - | 0.00% |
| Employee benefits | 725,988 | 4.90% | 676,614 | 4.79% |
| Office supplies | 63,334 | 0.43% | 62,970 | 0.45% |
| Postage | 16,933 | 0.11% | 16,276 | 0.12% |
| Telephone | 22,436 | 0.15% | 24,602 | 0.17% |
| Insurance and bonds | 150,512 | 1.02% | 163,675 | 1.16% |
| Professional services | 32,649 | 0.22% | 24,603 | 0.17% |
| Office building maintenance | 10,020 | 0.07% | 13,972 | 0.10% |
| Bad debts, net | 118,945 | 0.80% | 32,335 | 0.23% |
| Training, education and licenses | 3,696 | 0.02% | 2,338 | 0.02% |
| Safety program and drug screening | 13,235 | 0.09% | 13,342 | 0.09% |
| Transportation expense | 12,883 | 0.09% | 15,292 | 0.11% |
| Rez rebate payments | 4,375 | 0.03% | 11,250 | 0.08% |
| Utilities | 25,331 | 0.17% | 25,841 | 0.18% |
| Meetings and events | 4,991 | 0.03% | 7,898 | 0.06% |
| Advertising, donations, and memberships | 44,800 | 0.30% | 42,338 | 0.30% |
| Miscellaneous | <u>2,779</u> | <u>0.02%</u> | <u>3,029</u> | <u>0.02%</u> |
| Total sewer administrative and general | <u>1,719,042</u> | <u>11.61%</u> | <u>1,628,906</u> | <u>11.54%</u> |
| Total sewerage operating expense other than depreciation | <u>\$4,167,252</u> | <u>28.15%</u> | <u>\$3,941,578</u> | <u>27.92%</u> |



& CO. - HOPKINSVILLE LLP

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**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, 2015, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated January 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HWEA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HWEA's internal control. Accordingly, we do not express an opinion on the effectiveness of HWEA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

York, Nee & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky
January 26, 2016