

**HOPKINSVILLE SOLID WASTE ENTERPRISE
REPORT ON AUDITS OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

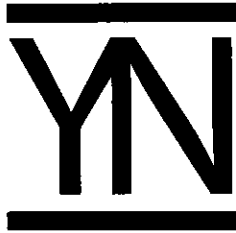
YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

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YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hopkinsville Solid Waste Enterprise
Hopkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hopkinsville Solid Waste Enterprise, a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hopkinsville Solid Waste Enterprise's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hopkinsville Solid Waste Enterprise, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension schedules on pages 26-27 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

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

York, Neel & Associates, LLP

Hopkinsville, Kentucky
January 25, 2017

HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,856,231	\$ 1,715,304
Restricted cash and cash equivalents	464,301	11,358
Accounts receivable, net of allowance	561,211	511,991
Other current assets	23,986	28,040
Total current assets	<u>2,905,729</u>	<u>2,266,693</u>
Noncurrent assets:		
Restricted investments	2,282,653	2,264,942
Capital assets:		
Land	615,582	615,582
Construction in progress	-	-
Depreciable capital assets, net	4,999,280	5,638,783
	<u>5,614,862</u>	<u>6,254,365</u>
Total noncurrent assets	<u>7,897,515</u>	<u>8,519,307</u>
Total assets	10,803,244	10,786,000
DEFERRED OUTFLOWS OF RESOURCES		
Pension	<u>670,398</u>	<u>310,637</u>
Total assets and deferred outflows of resources	<u>\$ 11,473,642</u>	<u>\$ 11,096,637</u>

The accompanying notes are an integral part of these financial statements.

HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 172,502	\$ 253,387
Accrued liabilities	79,002	133,622
Compensated absences, current portion	43,872	42,441
Payable to City of Hopkinsville, current portion	<u>802,926</u>	<u>631,306</u>
Total current liabilities	<u>1,098,302</u>	<u>1,060,756</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	248,611	240,500
Payable to City of Hopkinsville, net of current portion	1,357,915	2,115,904
Net pension liability	3,138,976	2,286,000
Estimated landfill closure costs	<u>4,502,124</u>	<u>4,183,614</u>
Total noncurrent liabilities	<u>9,247,626</u>	<u>8,826,018</u>
Total liabilities	<u>10,345,928</u>	<u>9,886,774</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	<u>152,953</u>	<u>255,000</u>
NET POSITION		
Net investment in capital assets	3,454,021	3,507,155
Unrestricted (deficit)	<u>(2,479,260)</u>	<u>(2,552,292)</u>
Total net position	<u>974,761</u>	<u>954,863</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 11,473,642</u></u>	<u><u>\$ 11,096,637</u></u>

The accompanying notes are an integral part of these financial statements.

HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Charges for services	\$ 6,943,978	\$ 6,600,719
Other income	97,602	73,868
Total operating revenues	<u>7,041,580</u>	<u>6,674,587</u>
OPERATING EXPENSES		
Salaries, wages and benefits	3,256,885	2,689,467
Transfer/disposal fees	552,836	510,812
Operations costs and services	792,291	810,770
Utilities, maintenance and supplies	630,953	565,583
Insurance and other administrative	366,839	319,613
Estimated landfill closure/postclosure costs	318,510	-
Payment in lieu of taxes	205,638	197,887
Depreciation	989,231	730,460
Total operating expenses	<u>7,113,183</u>	<u>5,824,592</u>
Operating income (loss)	<u>(71,603)</u>	<u>849,995</u>
NONOPERATING REVENUES		
(EXPENSES)		
Gain on disposal of capital assets	171,833	98,487
Interest income	23,177	15,603
Debt premium	3,814	3,814
Interest expense	(107,323)	(99,396)
Total nonoperating revenues (expenses)	<u>91,501</u>	<u>18,508</u>
Income before special item	19,898	868,503
SPECIAL ITEM		
Estimated landfill closure/postclosure costs reduction	<u>-</u>	<u>1,370,658</u>
Change in net position	19,898	2,239,161
Net position (deficit) - beginning of year	<u>954,863</u>	<u>(1,284,298)</u>
Net position - end of year	<u>\$ 974,761</u>	<u>\$ 954,863</u>

The accompanying notes are an integral part of these financial statements.

HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 6,894,757	\$ 6,652,656
Other cash receipts	101,656	73,868
Cash payments to employees for services	(2,919,837)	(2,712,868)
Cash payments to suppliers	<u>(2,629,442)</u>	<u>(2,611,964)</u>
Net cash provided by (used in) operating activities	<u>1,447,134</u>	<u>1,401,692</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	1,191,566	854,034
Payments for capital acquisitions	(1,360,920)	(2,129,673)
Principal borrowed on long-term debt with City	1,024,138	968,970
Principal paid on long-term debt with City	(1,606,692)	(1,246,509)
Interest paid on long-term debt	<u>(106,822)</u>	<u>(99,884)</u>
Net cash provided by (used in) capital and related financing activities	<u>(858,730)</u>	<u>(1,653,062)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Invested in landfill restricted assets	-	(240,000)
Received from landfill restricted investments	-	500,390
Interest on investments (unrestricted)	<u>5,466</u>	<u>1,160</u>
Net cash provided by (used in) investing activities	<u>5,466</u>	<u>261,550</u>
Net increase (decrease) in cash and cash equivalents	593,870	10,180
Cash and cash equivalents, beginning of year	<u>1,726,662</u>	<u>1,716,482</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,320,532</u></u>	<u><u>\$ 1,726,662</u></u>

The accompanying notes are an integral part of these financial statements.

HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 1,856,231	\$ 1,715,304
Restricted cash and cash equivalents:		
Capital expense account	<u>464,301</u>	<u>11,358</u>
Total cash and cash equivalents	<u>\$ 2,320,532</u>	<u>\$ 1,726,662</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (71,603)	\$ 849,995
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	989,231	730,460
Pension expense (income) (GASBS No. 68)	391,168	(50,351)
(Increase) decrease in assets:		
Accounts receivable	(49,221)	51,937
Other current assets	4,054	(28,040)
Increase (decrease) in liabilities:		
Accounts payable	(80,885)	(50,807)
Accounts payable - restricted	-	(128,452)
Accrued liabilities	(54,120)	26,950
Estimated landfill closure costs	<u>318,510</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 1,447,134</u>	<u>\$ 1,401,692</u>

The accompanying notes are an integral part of these financial statements.

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

1. Summary of Significant Accounting Policies

a. Reporting Entity

The Hopkinsville Solid Waste Enterprise's (Enterprise) purpose is the management and operation of a solid waste system for the City of Hopkinsville, Kentucky (City).

The City's governing body appoints the Enterprise's governing Board of Directors. The City's governing body also approves the rates for user charges. The Enterprise is a discretely presented component unit in the City's financial statements.

b. Basis of Accounting

The operations of the Enterprise 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. The Enterprise applies all GASB pronouncements applicable to enterprise funds.

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

- *Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of amounts with restrictions placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

**HOPKINSVILLE SOLID WASTE ENTERPRISE
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

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.

When both restricted and unrestricted resources are available for use, it is the Enterprise's policy to use restricted resources first, and then unrestricted resources as they are needed.

c. Deposits and Investments

Investments are reported at fair value. Fair values are obtained from market quotations on the last business day of the year.

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

As security for deposits, banks doing business with the Enterprise are required to pledge securities in an amount to exceed uninsured funds on deposit by the Enterprise.

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

d. Restricted Assets

Restricted assets currently consist of cash and investments placed in accounts in order to comply with state laws for funding landfill closure and postclosure costs and other projects.

e. Capital Assets

General capital assets are long-lived assets of the Enterprise as a whole. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Enterprise maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

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

1. Summary of Significant Accounting Policies, continued

e. Capital Assets, continued

Costs incurred for major improvements or construction of capital assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Construction in progress	N/A
Land improvements	7-40 Years
Buildings	27.5-40 Years
Equipment	5-10 Years
Vehicles	5-10 Years

f. Interest Capitalization

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Below is a summary of interest for the year:

	<u>2016</u>	<u>2015</u>
Interest capitalized	\$ -	\$ -
Interest expensed	<u>107,323</u>	<u>99,396</u>
Total interest	<u>\$ 107,323</u>	<u>\$ 99,396</u>

g. Compensated Absences

The Enterprise accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the Enterprise will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The Enterprise accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at the end of the fiscal year. The entire compensated absence liability is reported on the financial statements.

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

1. Summary of Significant Accounting Policies, continued

h. Long-Term Debt

The use of proprietary funds also requires that short and long-term debt of proprietary funds be accounted for in the same manner as debt of private-sector business enterprises. Debt that is expected to be paid from assets of proprietary funds is accounted for in this manner as well.

Bond premiums and discounts associated with the issuance of new debt are deferred and reported on the statement of net position. Bond premiums and discounts are netted against the corresponding liability on the statement of net position. These are amortized over the term of the bonds using the straight-line method. Bond issuance costs are recognized in the year the debt is incurred.

i. 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. Currently, the Enterprise has one item that qualifies for reporting in this category; that item is deferred outflows of resources associated with its pension plan. This item is reported on the statement of net position and will be recognized in pension expense in future years.

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. Currently, the Enterprise has one item that qualifies for reporting in this category; that item is deferred inflows of resources associated with its pension plan. This item is reported on the statement of net position and will be recognized in pension expense in future years.

j. Net Position

Net position comprises the various net earnings from operating and nonoperating revenues and expenses. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted. The Enterprise first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

k. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to 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 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 SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies, continued

i. 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.

m. Revenue Recognition

The Enterprise charges fees to customers according to four classes: (1) residential, (2) apartments, (3) commercial, and (4) other collections and services. These fees are charged monthly.

n. Budget

An annual budget is presented by the Board of Directors to guide the Enterprise's expenditures; however, this budget is not legally adopted. Therefore, the budget is not required to be presented as part of the financial statements.

o. Deficit Net Position

The Enterprise had deficit unrestricted net position at June 30, 2016 and 2015 of \$2,479,260 and \$2,552,292, respectively. This deficit is caused primarily due to the accrual of landfill closure costs and net pension liability that are expected to be funded in future years. The Enterprise expects results from future operations to fund such costs.

2. Deposits and Investments

The Enterprise'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 a bank failure, the Enterprise's deposits may not be returned or the Enterprise will not be able to recover collateral securities in the possession of an outside party. The Enterprise's policy requires banks doing business with the Enterprise to pledge securities in an amount to exceed uninsured funds on deposit by the Enterprise. As of June 30, 2016 and 2015, the Enterprise did not have any deposited funds that were exposed to custodial credit risk.

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

2. Deposits and Investments, continued

b. Investments

<u>Investments as of June 30, 2016</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Heritage Bank CD	n/a	\$ 2,040,844	\$ 2,040,844	12 mo.
Heritage Bank CD	n/a	<u>241,809</u>	<u>241,809</u>	12 mo.
Total		<u>\$ 2,282,653</u>	<u>\$ 2,282,653</u>	

<u>Investments as of June 30, 2015</u>	<u>Average Credit Quality/Rating</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Heritage Bank CD	n/a	\$ 2,024,942	\$ 2,024,942	11.5 mo.
Heritage Bank CD	n/a	<u>240,000</u>	<u>240,000</u>	11.5 mo.
Total		<u>\$ 2,264,942</u>	<u>\$ 2,264,942</u>	

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the Enterprise will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counter party or a counter party's trust department or agent, but not in the government's name. As of June 30, 2016 and 2015, none of the Enterprise's investments were subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Enterprise has no investment policy that limits its investment choices other than the limitations of Kentucky Revised Statute 66.480 that permits the Enterprise 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

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

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

2. Deposits and Investments, continued

b. Investments, continued

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. The Enterprise 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. The Enterprise does not have investments in foreign currency, and is, therefore, not exposed to such risk.

3. Accounts Receivable

Accounts receivable, net of allowance for uncollectible accounts include the following as of June 30:

	<u>2016</u>	<u>2015</u>
Accounts receivable - trade	\$ 584,555	\$ 530,490
Accounts receivable - related parties	7,117	5,520
Allowance for uncollectible accounts	<u>(30,461)</u>	<u>(24,019)</u>
Total accounts receivable, net	<u>\$ 561,211</u>	<u>\$ 511,991</u>

The allowance for uncollectible accounts is based on outstanding account balances in excess of ninety days. Uncollectible accounts are written off as bad debts in the period in which, in management's opinion, collection is unlikely. Bad debt expense was \$6,442 and \$2,357 for the years ended June 30, 2016 and 2015, respectively.

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

4. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in progress	-	-	-	-
Capital Assets Being Depreciated:				
Buildings	695,467	38,862	-	734,329
Equipment	8,751,045	1,330,599	2,087,402	7,994,242
Land improvements	1,947,530	-	-	1,947,530
Less Accumulated Depreciation:				
Building	69,463	16,400	-	85,863
Equipment	5,089,867	846,306	1,067,669	4,868,504
Land improvements	<u>595,929</u>	<u>126,525</u>	<u>-</u>	<u>722,454</u>
Total	<u>\$6,254,365</u>	<u>\$ 380,230</u>	<u>\$1,019,733</u>	<u>\$ 5,614,862</u>

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
Capital Assets Not Being Depreciated:				
Land	\$ 615,582	\$ -	\$ -	\$ 615,582
Construction in progress	795,111	-	795,111	-
Capital Assets Being Depreciated:				
Buildings	184,605	510,862	-	695,467
Equipment	7,359,883	2,454,666	1,063,504	8,751,045
Land improvements	1,947,530	-	-	1,947,530
Less Accumulated Depreciation:				
Building	57,383	12,080	-	69,463
Equipment	4,709,955	687,869	307,957	5,089,867
Land improvements	<u>565,418</u>	<u>30,511</u>	<u>-</u>	<u>595,929</u>
Total	<u>\$5,569,955</u>	<u>\$ 2,235,068</u>	<u>\$1,550,658</u>	<u>\$ 6,254,365</u>

Depreciation expense (including amortization of capitalized assets) for the years ended June 30, 2016 and 2015 was \$989,231 and \$730,460, respectively.

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

5. Long-Term Obligations

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

	July 1, 2015	Additions	Reductions	June 30, 2016	Due Within One Year
Compensated absences	\$ 282,941	\$ 9,542	\$ -	\$ 292,483	\$ 43,872*
Payable to City of Hopkinsville:					
KBC lease - 2011	1,127,918	-	187,085	940,833	192,083
BB&T lease - 2013	335,000	-	65,000	270,000	65,000
Capital vehicle leases	1,263,000	1,024,138	1,354,609	932,529	545,843
Plus: Unamortized premium	21,292	-	3,813	17,479	-
Net pension liability	2,286,000	852,976	-	3,138,976	-
Accrued landfill closing costs	<u>4,183,614</u>	<u>318,510</u>	<u>-</u>	<u>4,502,124</u>	<u>-</u>
Total	<u>\$ 9,499,765</u>	<u>\$ 2,205,166</u>	<u>\$ 1,610,507</u>	<u>\$10,094,424</u>	<u>\$ 846,798</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 the Enterprise's management.

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

	July 1, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
Compensated absences	\$ 243,171	\$ 39,770	\$ -	\$ 282,941	\$ 42,441*
Payable to City of Hopkinsville:					
KBC lease - 2011	1,310,000	-	182,082	1,127,918	187,083
BB&T lease - 2013	400,000	-	65,000	335,000	65,000
Capital vehicle leases	1,293,457	968,970	999,427	1,263,000	379,223
Plus: Unamortized premium	25,106	-	3,814	21,292	-
Net pension liability	2,586,000	-	300,000	2,286,000	-
Accrued landfill closing costs	<u>5,554,272</u>	<u>-</u>	<u>1,370,658</u>	<u>4,183,614</u>	<u>-</u>
Total	<u>\$11,412,006</u>	<u>\$ 1,008,740</u>	<u>\$ 2,920,981</u>	<u>\$ 9,499,765</u>	<u>\$ 673,747</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 the Enterprise's management.

The Payable to the City of Hopkinsville liability is comprised of the following:

- (1) The Kentucky Bond Corporation (KBC) issued a general obligation lease with the City of Hopkinsville, Kentucky for \$1,835,000 in April 2011 for the purpose of funding the construction of a vertical expansion of the landfill and a leachate treatment station located at the landfill. This lease has a variable interest rate, currently 4.1% plus administrative fees, and matures in January 2021. The Enterprise has an agreement with the City that the Enterprise is obligated for such payments.

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

5. Long-Term Obligations, continued

(2) Branch Banking and Trust Company (BB&T) issued a lease agreement with the City of Hopkinsville, Kentucky for \$400,000 in December 2013 for the acquisition, construction, installation, and equipping of a solid waste enterprise administration building. This agreement has a variable interest rate, currently 1.98%, and matures in December 2019. The Enterprise has an agreement with the City that the Enterprise is obligated for such payments.

See Note 6 regarding the Payable to the City of Hopkinsville – Capital Leases.

Annual debt service requirements to maturity for the Payable to the City of Hopkinsville for the KBC and BB&T leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 257,083	\$ 42,080	\$ 299,163
2018	264,167	34,550	298,717
2019	277,083	25,886	302,969
2020	284,167	15,699	299,866
2021	<u>128,333</u>	<u>5,717</u>	<u>134,050</u>
Total	<u>\$ 1,210,833</u>	<u>\$ 123,932</u>	<u>\$ 1,334,765</u>

See Note 8 regarding the accrued landfill closing costs.

6. Payable to the City of Hopkinsville – Capital Leases

Various financial institutions have entered into the following lease agreements with the City. The Enterprise has an agreement with the City that the Enterprise is obligated for such payments.

In August 2012, the Enterprise leased two residential trucks. The vehicles are leased at \$79,766 per year for a term of six years at an interest rate of 3.30%. The first annual payment was due September 2013. The lease expires in September 2018. There is a purchase option on each rental payment due date for the amount due on such date plus the purchase option price set forth in the lease agreement.

In September 2014, the Enterprise leased two roll-off trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment is due at the expiration date in April 2016. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off and the related property sold in September 2015.

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

6. Payable to the City of Hopkinsville – Capital Leases, continued

In May 2015, the Enterprise leased four trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment is due at the expiration date in November 2016. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off and the related property sold in April 2016 and June 2016.

In July 2015, the Enterprise leased two trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment is due at the expiration date in January 2017. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off and the related property sold in June 2016.

In October 2015, the Enterprise leased three trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment is due at the expiration date in April 2017. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

In April 2016, the Enterprise leased two trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.54%. A lump sum principal payment is due at the expiration date in October 2017. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

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

	<u>2016</u>	<u>2015</u>
Equipment under Capital Leases	\$1,215,314	\$1,475,870
Accumulated Depreciation	<u>(467,489)</u>	<u>(355,628)</u>
Total	<u>\$ 747,825</u>	<u>\$1,120,242</u>

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

The future minimum lease obligations as of June 30, 2016 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total Lease Payments</u>	<u>Less Imputed Interest</u>	<u>Present Value of Minimum Lease Payments</u>
2017	\$ 581,953	\$ 36,110	\$ 545,843
2018	318,150	8,644	309,506
2019	<u>79,766</u>	<u>2,586</u>	<u>77,180</u>
Total	<u>\$ 979,869</u>	<u>\$ 47,340</u>	<u>\$ 932,529</u>

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

7. Pension Plan

The Enterprise participates in the County Employees Retirement System (CERS).

Plan Description:

Substantially all of the Enterprise 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, the Enterprise contributed 17.06% of annual covered payroll for fiscal year 2016. Employees classified as hazardous hired prior to September 1, 2008, contribute 8% of their annual creditable compensation, and those hired on or after September 1, 2008, contribute 9%. The Enterprise had no employees classified as hazardous for years ended June 30, 2016 or 2015. The contribution requirements of plan members and the Enterprise are established and may be amended by the Kentucky Retirement Systems Board of Trustees. The Enterprise's contributions to CERS were \$320,925 for nonhazardous employees for the year ended June 30, 2016 and \$310,637 for the year ended June 30, 2015.

Net Pension Liabilities:

At June 30, 2016 and 2015, the Enterprise reported a liability of \$3,138,976 and \$2,286,000, respectively, for its proportionate share of the net pension liability, all of which pertained to nonhazardous pensions. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Enterprise's proportion of the net pension liability was based on a projection of the Enterprise's long term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016 and 2015, the Enterprise's proportion was 0.073008% and 0.070445%, respectively, for nonhazardous pensions.

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

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

7. Pension Plan, continued

Actuarial Assumptions and Other Inputs:

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008, to June 30, 2013.

Changes in Assumptions:

Since the prior measurement date of June 30, 2014, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated. The changes in assumptions include the following:

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

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

7. Pension Plan, continued

Discount Rate:

- a. Discount rate: The discount rate used to measure the total pension liability was 7.50%.
- b. Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- c. Long-term rate of return: The long-term expected return on plan assets is reviewed as part of the regular experience studies every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
- d. Municipal bond rate: The discount rate determination does not use a municipal bond rate.
- e. Periods of projected benefit payments: Projected future benefit payments for all plan members were projected through 2117.

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

7. Pension Plan, continued

Discount Rate, continued:

- f. Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates for each major asset class are summarized in the following table:

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

- g. Sensitivity analysis: The following presents the Enterprise's net pension liability for its pension plan, calculated using the current discount rate, as well as what the Enterprise'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>	6.50%	7.50%	8.50%
Proportionate Share NPL	<u>\$4,007,293</u>	<u>\$3,138,976</u>	<u>\$2,395,340</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 years ended June 30, 2016 and 2015, the Enterprise recognized pension expense (income) of \$391,168 and (\$50,351), respectively.

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

7. Pension Plan, continued

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

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

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between expected and actual experience	\$ 20,869	\$ -
Net difference between projected and actual earnings on pension plan investments	22,511	152,953
Change in assumptions	253,226	-
Change in proportionate share	52,867	-
Enterprise contributions subsequent to the measurement date of June 30, 2015	<u>320,925</u>	<u>-</u>
Total	<u>\$ 670,398</u>	<u>\$ 152,953</u>

The \$320,925 reported as deferred outflows of resources related to pensions resulting from the Enterprise's contributions subsequent to the measurement date of June 30, 2015, will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30

2017	\$ 36,346
2018	36,346
2019	36,345
2020	87,483
2021	<u>-</u>
	<u>\$ 196,520</u>

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

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

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 255,000
Enterprise contributions subsequent to the measurement date of June 30, 2014	<u>310,637</u>	<u>-</u>
Total	<u>\$ 310,637</u>	<u>\$ 255,000</u>

**HOPKINSVILLE SOLID WASTE ENTERPRISE
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:

The \$310,637 reported as deferred outflows of resources related to pensions resulting from the Enterprise's contributions subsequent to the measurement date of June 30, 2014, were recognized as a reduction of the net pension liability in the year ended June 30, 2016.

8. Closure and Postclosure Care Costs

State and federal laws and regulations require the Enterprise to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for up to thirty years after closure. The City closed its regular landfill on July 1, 1995. The City, and subsequently, the Enterprise have operated a separate landfill section as a construction demolition debris (CDD) landfill since June 30, 1995. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Enterprise reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date.

The estimated landfill closure and postclosure care liability at June 30, 2016 and 2015 was \$4,502,124 and \$4,183,614, respectively. This represents the cumulative amount reported to date based on the use of the capacity of the landfill for areas 6, 7 and 9. As of June 30, 2016, areas 6 and 7 are closed and area 9 is the vertical expansion, which had capacity used of approximately 9% at June 30, 2016 and 0% at June 30, 2015. These amounts are based on what it would cost to perform all closure and postclosure care in 2015 and 2014 as estimated by the consulting engineer. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

As of June 30, 2016, the total amount of closure and postclosure costs are estimated to be \$7,722,614, leaving \$3,220,490 remaining to be recognized. The remaining life of the landfill is estimated to be 42 years.

The City and the Enterprise are required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for landfill closure and postclosure care. The Enterprise is in compliance with these requirements, as determined by the Kentucky Natural Resources and Environmental Protection Cabinet, by entering into a performance agreement that calls for scheduled future annual funding contributions to the closure account. At June 30, 2016 and 2015, \$2,282,653 and \$2,264,942, respectively, is held for such purposes and included in restricted investments on the statement of net position. The Enterprise expects future inflation costs will be paid from these funds combined with the scheduled future funding and related investment income. However, if earnings are inadequate or additional postclosure care requirements are determined due to changes in technology, laws, regulations or other, additional funding would be required.

See Note 12 for the Special Item relating to the change in the estimated remaining life of the landfill.

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

9. Related Party Transactions

Hopkinsville Water Environment Authority (HWEA) provides billing and cash collection services and leachate purification services for the Enterprise. HWEA had billed customers on behalf of the Enterprise \$238,723 and \$229,158 as of June 30, 2016 and 2015, respectively; and this is included in accounts receivable in the accompanying statements of net position. For the years ended June 30, 2016 and 2015, the total expense for billing and collection services was \$86,527 and \$77,155, respectively. For the years ended June 30, 2016 and 2015, the total expense for leachate purification services was \$119 and \$13,135, respectively. At June 30, 2016 and 2015, accounts payable for these services was \$13,853 and \$12,762, respectively.

The City of Hopkinsville assesses a percentage of Enterprise revenue as payment in lieu of taxes. For the years ended June 30, 2016 and 2015, the total expense for payment in lieu of taxes was \$205,638 and \$197,887, respectively. At June 30, 2016 and 2015, accounts payable for these payments was \$17,612 and \$16,979, respectively. See Notes 5 and 6 regarding payables to the City of Hopkinsville.

10. Risk Management

The Enterprise 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. The Enterprise carries commercial insurance for 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 the current or previous year.

11. Claims and Judgments

Legal actions and/or claims are pending or may be instituted or asserted against the Enterprise in the future. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. No accruals have been established for these matters because the amount of possible loss or range of loss cannot be reasonably estimated. Management does not expect that such matters would have a material adverse effect on the Enterprise's financial statements, although such an outcome is possible.

12. Special Item

The Enterprise completed construction of a vertical expansion of the landfill in 2011. This expansion resulted in new permitting that incorporated changes in technology and environmental requirements resulting in a significant decrease to the projected closure and post closure costs, as well as the estimated remaining life of the landfill. The resulting gain of \$1,370,658 is considered a special item on the statement of revenues, expenses, and changes in net position for the year ended June 30, 2015.

13. Subsequent Events

Subsequent to year end, the City, on behalf of the Enterprise, entered into a capital lease agreement for six 2017 Mack trucks for a total of \$1,252,954, a capital lease for three 2017 Mack trucks for a total of \$458,415, and a capital lease for three 2017 Mack trucks for a total of \$428,508.

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

**HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE FISCAL YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>
<u>Nonhazardous:</u>		
Enterprise's proportion of the net pension liability (asset)	0.073008%	0.070445%
Enterprise's proportionate share of the net pension liability (asset)	\$ 3,138,976	\$ 2,286,000
Enterprise's covered payroll	\$ 1,822,532	\$ 1,688,607
Enterprise's proportionate share of the net pension liability as a percentage of its covered payroll	172.23%	135.38%
Total pension plan's fiduciary net position	\$ 6,440,799,856	\$ 6,528,146,353
Total pension plan's pension liability	\$10,740,325,421	\$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

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

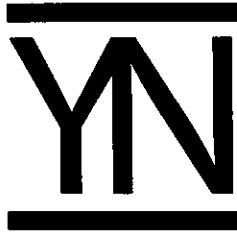
Note: Please read Note 7 in the notes to financial statements regarding detailed information on the Enterprise's pension plan.

**HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
SCHEDULES OF CONTRIBUTIONS
FOR THE FISCAL YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 320,925	\$ 310,637	\$ 305,286
Contributions in relation to the contractually required contributions	<u>320,925</u>	<u>310,637</u>	<u>305,286</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$1,822,532	\$1,688,607	\$1,610,274
Contributions as a percentage of covered payroll	17.61%	18.40%	18.96%

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 the Enterprise's pension plan.



YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Hopkinsville Solid Waste Enterprise
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 Hopkinsville Solid Waste Enterprise, a component unit of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hopkinsville Solid Waste Enterprise's basic financial statements, and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

York, Neel, & Associates, LLP

Hopkinsville, Kentucky
January 25, 2017