HOPKINSVILLE SOLID WASTE ENTERPRISE

REPORT ON AUDITS OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise 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.

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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, 2018 and 2017, 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 described in Note 1 to the financial statements, during the year ended June 30, 2018, Hopkinsville Solid Waste Enterprise adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and *GASBS No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Enterprise's Proportionate Share of the Net Pension Liability on page 38, the Schedule of the Enterprise's Pension Contributions on page 39, the Schedule of the Enterprise's Proportionate Share of the Net OPEB Liability on page 40, and the Schedule of the Enterprise's OPEB Contributions on page 41 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 December 20, 2018, 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 effectiveness of Hopkinsville Solid Waste Enterprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hopkinsville Solid Waste Enterprise's internal control over financial reporting and compliance.

York, Neel & Associates, LLP

Hopkinsville, Kentucky
December 20, 2018

HOPKINSVILLE SOLID WASTE ENTERPRISE
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	As Restated 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,424,329	$ 1,917,729
Restricted cash and cash equivalents	284,780	2,859,883
Accounts receivable, net of allowance	727,349	634,695
Other current assets	41,304	19,676
Total current assets	3,477,762	5,431,983
Noncurrent assets:		
Restricted investments	246,684	244,009
Capital assets:		
Land	615,582	615,582
Construction in progress	1,994,501	45,698
Depreciable capital assets, net	5,719,120	6,394,667
	8,329,203	7,055,947
Total noncurrent assets	8,575,887	7,299,956
Total assets	12,053,649	12,731,939
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pension	2,140,286	999,095
Deferred outflows from OPEB	496,819	101,444
Total deferred outflows of resources	2,637,105	1,100,539
Total assets and deferred outflows of resources	$ 14,690,754	$ 13,832,478

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, 2018 AND 2017

	2018	As Restated 2017
LIABILITIES		
Current liabilities:		
Accounts payable	$ 260,703	$ 194,079
Accrued liabilities	88,173	145,148
Compensated absences, current portion	69,977	57,295
Payable to City of Hopkinsville, current portion	1,691,256	2,404,044
Total current liabilities	2,110,109	2,800,566
Noncurrent liabilities:		
Compensated absences, net of current portion	396,537	324,674
Payable to City of Hopkinsville, net of current portion	766,803	939,076
Net pension liability	5,176,782	3,761,528
OPEB liability	1,777,987	1,394,600
Estimated landfill closure costs	6,009,316	4,965,810
Total noncurrent liabilities	14,127,425	11,385,688
Total liabilities	16,237,534	14,186,254
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pension	477,373	-
Deferred inflows from OPEB	93,091	-
Total deferred inflows of resources	570,464	-
NET POSITION		
Net investment in capital assets	5,871,144	3,712,827
Unrestricted (deficit)	(7,988,388)	(4,066,603)
Total net position (deficit)	(2,117,244)	(353,776)
Total liabilities, deferred inflows of resources, and net position	$ 14,690,754	$ 13,832,478

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, 2018 AND 2017

	2018	As Restated 2017
OPERATING REVENUES		
Charges for services	$ 7,829,720	$ 7,329,458
Other income	15,058	22,847
Total operating revenues	7,844,778	7,352,305
OPERATING EXPENSES		
Salaries, wages, and benefits	4,563,726	4,783,762
Transfer/disposal fees	666,068	598,015
Operations costs and services	848,865	793,853
Utilities, maintenance, and supplies	586,818	548,750
Insurance and other administrative	350,349	318,846
Estimated landfill closure/postclosure costs	1,043,506	463,686
Payment in lieu of taxes	386,361	215,709
Depreciation	1,227,535	1,107,121
Total operating expenses	9,673,228	8,829,742
Operating income (loss)	(1,828,450)	(1,477,437)
NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of capital assets	102,763	234,281
Interest income	62,155	45,732
Amortization of debt premium	3,814	3,814
Interest expense	(103,750)	(134,927)
Total nonoperating revenues (expenses)	64,982	148,900
Change in net position	(1,763,468)	(1,328,537)
Net position - beginning of year, as restated	(353,776)	974,761
Net position - end of year	$ (2,117,244)	$ (353,776)

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, 2018 AND 2017

	2018	As Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 7,777,365	$ 7,255,974
Other cash receipts	19,641	27,159
Cash payments to employees for services	(3,788,869)	(3,305,894)
Cash payments to suppliers	(2,796,813)	(2,431,261)
Net cash provided by (used in) operating activities	1,211,324	1,545,978
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of capital assets	2,583,466	1,081,658
Payments for capital acquisitions	(4,938,304)	(3,325,085)
Principal borrowed on long-term debt with City	2,517,984	2,375,705
Principal paid on long-term debt with City	(3,399,232)	(1,189,612)
Interest paid on long-term debt	(103,222)	(134,927)
Net cash provided by (used in) capital and related financing activities	(3,339,308)	(1,192,261)
CASH FLOWS FROM INVESTING ACTIVITIES		
Received from landfill restricted investments	-	2,059,831
Interest on investments (unrestricted)	59,481	43,532
Net cash provided by (used in) investing activities	59,481	2,103,363
Net increase (decrease) in cash and cash equivalents	(2,068,503)	2,457,080
Cash and cash equivalents, beginning of year	4,777,612	2,320,532
Cash and cash equivalents, end of year	$ 2,709,109	$ 4,777,612

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, 2018 AND 2017

	2018	As Restated 2017
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 2,424,329	$ 1,917,729
Restricted cash and cash equivalents:		
Capital expense account	284,780	2,859,883
Total cash and cash equivalents	$ 2,709,109	$ 4,777,612
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ (1,828,450)	$ (1,477,437)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Bad debt expense	26,430	-
Depreciation	1,227,535	1,107,121
Pension expense (GASBS No. 68)	751,436	140,902
OPEB expense (GASBS No. 75)	81,103	1,293,156
(Increase) decrease in assets:		
Accounts receivable	(78,785)	(73,484)
Other current assets	(21,629)	4,310
Increase (decrease) in liabilities:		
Accounts payable	67,860	21,578
Accrued liabilities	(57,682)	66,146
Estimated landfill closure costs	1,043,506	463,686
Net cash provided by (used in) operating activities	$ 1,211,324	$ 1,545,978

The accompanying notes are an integral part of these 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".

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 post closure 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.

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:

Description	Estimated Lives
Land	N/A
Construction in progress	N/A
Land improvements	7-40 Years
Buildings	25-40 Years
Equipment	5-10 Years
Vehicles	5-10 Years

f. 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.

g. 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.

1. Summary of Significant Accounting Policies, continued

h. 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 it will not be recognized as an outflow of resources (expense/expenditure) until that future period. Currently, the Enterprise has two items that qualify for reporting in this category; those items are deferred outflows of resources associated with its pension plan and its other post-employment benefits (OPEB). These items are reported on the statement of net position and will be recognized in pension and OPEB expenses 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 it will not be recognized as an inflow of resources (revenue) until that time. Currently, the Enterprise has two items that qualify for reporting in this category; those items are deferred inflows of resources associated with its pension plan and its OPEB. These items are reported on the statement of net position and will be recognized in pension and OPEB expenses in future years.

i. 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.

j. Pensions and Other Postemployment Benefits ("OPEB")

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

1. Summary of Significant Accounting Policies, continued

k. Adoption of New Accounting Pronouncements

During the year ended June 30, 2018, management adopted new accounting guidance GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, and it aims to improve financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers regarding financial support for OPEB that is provided by other entities. See Note 16 for the restatement of the July 1, 2017 net position.

During the year ended June 30, 2018, management also adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. This Statement, which is to be applied prospectively, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As result of management's adoption of GASB Statement No. 89, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

l. 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.

1. Summary of Significant Accounting Policies, continued

o. Deficit Net Position

The Enterprise had deficit unrestricted net position at June 30, 2018 and 2017 of $7,988,388 and $4,066,603, respectively. This deficit is caused primarily due to the accrual of landfill closure costs and net pension/OPEB 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, 2018 and 2017, the Enterprise did not have any deposited funds that were exposed to custodial credit risk.

b. Investments

Investments as of June 30, 2018	Average Credit Quality/Rating	Carrying Value	Fair Value	Average Maturity
Heritage Bank CD	n/a	$ 246,684	$ 246,684	12 mo.

Investments as of June 30, 2017	Average Credit Quality/Rating	Carrying Value	Fair Value	Average Maturity
Heritage Bank CD	n/a	$ 244,009	$ 244,009	12 mo.

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, 2018 and 2017, none of the Enterprise's investments were subject to custodial credit risk.

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. 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 investment is in a certificate 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. 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:

	2018	2017
Accounts receivable - trade	$ 743,124	$ 661,974
Accounts receivable - related parties	372	2,736
Allowance for uncollectible accounts	(16,147)	(30,015)
Total accounts receivable, net	$ 727,349	$ 634,695

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 $26,429 and $(446) for the years ended June 30, 2018 and 2017, respectively.

4. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets Not Being Depreciated:				
Land	$ 615,582	$ -	$ -	$ 615,582
Construction in progress	45,698	1,948,803	-	1,994,501
Capital Assets Being Depreciated:				
Buildings	722,279	5,900	-	728,179
Equipment	8,921,396	3,023,291	3,329,458	8,615,229
Land improvements	1,947,530	3,500	-	1,951,030
Less Accumulated Depreciation:				
Building	91,934	16,880	-	108,814
Equipment	4,254,262	1,082,277	848,755	4,487,784
Land improvements	850,342	128,378	-	978,720
Total	$ 7,055,947	$ 3,753,959	$ 2,480,703	$ 8,329,203

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets Not Being Depreciated:				
Land	$ 615,582	$ -	$ -	$ 615,582
Construction in progress	-	45,698	-	45,698
Capital Assets Being Depreciated:				
Buildings	734,329	-	12,050	722,279
Equipment	7,994,242	3,390,798	2,463,644	8,921,396
Land improvements	1,947,530	-	-	1,947,530
Less Accumulated Depreciation:				
Building	85,863	16,481	10,410	91,934
Equipment	4,868,504	962,752	1,576,994	4,254,262
Land improvements	722,454	127,888	-	850,342
Total	$5,614,862	$ 2,329,375	$ 888,290	$ 7,055,947

Depreciation expense (including amortization of capitalized assets) for the years ended June 30, 2018 and 2017 was $1,227,535 and $1,107,121, respectively.

5. Long-Term Obligations

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	July 1, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
Compensated absences	$ 381,969	$ 84,545	$ -	$ 466,514	$ 69,977*
Payable to City of Hopkinsville:					
KBC lease - 2011	748,750	-	199,167	549,583	207,083
BB&T lease - 2013	205,000	-	65,000	140,000	70,000
Capital vehicle leases	2,375,705	2,517,984	3,135,064	1,758,625	1,414,173
Plus: Unamortized premium	13,665	-	3,814	9,851	-
Net pension liability	3,761,528	1,415,254	-	5,176,782	-
Net OPEB liability	1,394,600	383,387	-	1,777,987	-
Accrued landfill closing costs	4,965,810	1,043,506	-	6,009,316	-
Total	$ 13,847,027	$ 5,444,676	$ 3,403,045	$15,888,658	$ 1,761,233

***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, 2017, the following changes occurred in long-term liabilities:

	July 1, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
Compensated absences	$ 292,483	$ 89,486	$ -	$ 381,969	$ 57,295*
Payable to City of Hopkinsville:					
KBC lease - 2011	940,833	-	192,083	748,750	199,167
BB&T lease - 2013	270,000	-	65,000	205,000	65,000
Capital vehicle leases	932,529	2,375,705	932,529	2,375,705	2,139,877
Plus: Unamortized premium	17,479	-	3,814	13,665	-
Net pension liability	3,138,976	622,552	-	3,761,528	-
Net OPEB liability	-	1,394,600	-	1,394,600	-
Accrued landfill closing costs	4,502,124	463,686	-	4,965,810	-
Total	$ 10,094,424	$ 4,946,029	$ 1,193,426	$ 13,847,027	$ 2,461,339

***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.

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.

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

Fiscal Year Ending June 30	Principal	Interest	Total
2019	$ 277,083	$ 25,886	$ 302,969
2020	284,167	15,699	299,866
2021	128,333	5,717	134,050
Total	$ 689,583	$ 47,302	$ 736,885

See Note 6 regarding the payable to the City for capital leases. 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 July 2016, the Enterprise leased two residential side-loaders, two commercial front-loaders and two roll off trucks. The vehicles were leased for interest only payments each month at an interest rate of 4.5%. A lump sum principal payment was due at the expiration date in January 2018. There was an option to purchase at any point during the agreement for the purchase price plus accrued interest. This lease was paid off in October 2017 and the related property sold in July and September 2017.

In October 2016, the Enterprise leased three roll-off trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment was due at the expiration date in April 2018. 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 related property sold in October 2017.

In October 2016, the Enterprise leased three knuckle-boom trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.55%. A lump sum principal payment was due at the expiration date in April 2018. 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 related property sold in September 2017.

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

In May 2017, the Enterprise leased two semi-trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.81%. A lump sum principal payment was due at the expiration date in November 2018. 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 related property sold in March 2018.

In August 2017, the Enterprise leased two roll off and two front load trucks. The vehicles are leased for interest only payments each month at an interest rate of 4.03%. A lump sum principal payment was due at the expiration date in February 2019. 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 related property sold in June 2018.

In October 2017, the Enterprise leased two side load trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.23%. A lump sum principal payment is due at the expiration date in April 2019. There is an option to purchase at any point during the agreement for the purchase price plus accrued interest.

In April 2018, the Enterprise leased three semi-trucks. The vehicles are leased for interest only payments each month at an interest rate of 3.00%. A lump sum principal payment is due at the expiration date in September 2019. 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:

	2018	2017
Equipment under Capital Leases	$1,758,624	$2,375,705
Accumulated Depreciation	(205,779)	(380,418)
Total	$1,552,845	$1,995,287

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

The future minimum lease obligations as of June 30, 2018 are as follows:

Fiscal Year Ending June 30	Total Lease Payments	Less Imputed Interest	Present Value of Minimum Lease Payments
2019	$1,474,790	$ 60,617	$1,414,173
2020	347,723	3,272	344,451
Total	$1,822,513	$ 63,889	$1,758,624

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS

General Information about the Pension Plan:

All full-time and eligible part-time employees of the Enterprise participate in the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth of Kentucky. Under the provisions of Kentucky Revised Statute Section 78.520, the Board of Trustees (the Board) of KRS administers CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs.

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances. Under the provision of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. KRS and the Commonwealth of Kentucky have statutory authority to determine Plan benefits and employer contributions.

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

Basis of Accounting:

For purposes of measuring the net pension and OPEB liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension Benefits Provided:

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

Members whose participation began before 8/1/2004:

Age and Service Requirement: Age 65 with at least one month of nonhazardous duty service credit, or at any age with 27 or more years of service credit.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Benefits Provided, continued:

Members whose participation began before 8/1/2014, continued:

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.20% times final average compensation times years of service depending on participation and retirement dates. Final compensation is calculated by taking the average of the highest 5 fiscal years of salary. If the number of months of service credit during the 5 year period is less than 48, 1 or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004 but before 9/1/2008:

Age and Service Requirement: Age 65 with at least one month of nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest 5 fiscal years of salary. If the number of months of service credit during the 5 year period is less than 48, 1 or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the last (not highest) 5 complete years of salary. Each fiscal year used to determine final compensation must contain 12 months of service credit.

Service Credit	Benefit Factor
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Benefits Provided, continued:

Members whose participation began on or after 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: Each year that a member is an active contributing member to CERS, the member contributes 5% of credible compensation, and the member's employer contributes 4% of creditable compensation, which is a portion of the total employer contribution, into a hypothetical account. The hypothetical account will earn interest annually on both the member's and the employer's contribution at a minimum rate of 4%. If the CERS's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement, the hypothetical account, which includes member contributions, employer contributions, and interest credits, can be withdrawn from the CERS as a lump sum or annuitized into a single life annuity option.

OPEB Benefits Provided:

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

Insurance Tier 1 – Participation began before 7/1/2003:

Benefit Eligibility: Recipient of a retirement allowance.

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service, and surviving spouse of a retiree.

Insurance Tier 2 – Participation began on or after 7/1/2003 but before 9/1/2008:

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement.

Benefit: The system provides a monthly contribution subsidy of $10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service, and non-duty death in service.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Benefits Provided, continued:

Insurance Tier 3 – Participation began on or after 9/1/2008:

Benefit Eligibility: Recipient of a retirement allowance with at least 180 months of service at retirement.

Benefit: The system provides a monthly contribution subsidy of $10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service, and non-duty death in service.

Contributions:

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

For the fiscal years ended June 30, 2018 and 2017, participating employers contributed 19.18% (14.48% allocated to pension and 4.70% allocated to OPEB) and 18.68% (13.95% allocated to pension and 4.73% allocated to OPEB) as set by KRS, respectively, of each nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investment earnings.

The Enterprise has met 100% of the contribution funding requirements for the years ended June 30, 2018 and 2017. Total contributions recognized by the Plan were $448,650 ($338,710 related to pension and $109,940 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy reported in the amount of $21,730.

Members whose participation began before 9/1/2008:

Nonhazardous contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%, and, per statute, shall not be less than 2.0%. Member is entitled to a full refund of contributions with interest.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Contributions, continued:

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Nonhazardous contributions equal 6% of all creditable compensation, with 5% credited to the member's account and 1% deposited to the KRS 401(h) account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account; however, the 1% contributed to the insurance fund is non-refundable.

Members whose participation began on or after 1/1/2014:

Nonhazardous contributions equal 6% of all creditable compensation, with 5% credited to the member's account and 1% deposited to the KRS 401(h) account. Member is entitled to a full refund of contributions and interest on the member's portion of the hypothetical account; however, the 1% contributed to the insurance fund is non-refundable.

Pension Information:

Actuarial Assumptions and Other Inputs:

The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2017 using standard roll-forward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.30%
Salary increases:	3.05%, average, including inflation
Investment rate of return:	6.25%, 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Information, continued:

Actuarial Assumptions and Other Inputs, continued:

Changes in Assumptions:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

2016: There were no changes in assumptions and benefit terms since the prior measurement date.

2015: Since the prior measurement date, 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 mortality table used for active members is RR-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 1 year for females). For disabled members, the RP-2000 Combined Mortality Tables projected with Scale BB to 2013 (set back 4 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 assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

Discount Rate Assumptions:

a. *Discount rate:* The discount rate used to measure the total pension liability was 6.25%, which was reduced from the 7.50% discount rate used in the prior year.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Information, continued:

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

b. *Projected cash flows:* The projection of cash flows used to determine the discount rate assumed that local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

c. *Long-term rate of return:* The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

d. *Municipal bond rate:* The discount rate determination does not use a municipal bond rate.

e. *Periods of projected benefit payments:* The long-term assumed rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Information, continued:

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

f. *Assumed asset allocation, continued:*

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustee at 6.25% based on a blending of the factors described above.

g. *Sensitivity analysis:* The following presents the Enterprise's allocated portion of the net pension liability ("NPL") of CERS, calculated using the discount rate of 6.25%, as well as what the Enterprise's allocated portion of the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Nonhazardous:			
Discount rate	5.25%	6.25%	7.25%
The Enterprise's NPL	$6,529,041	$5,176,782	$4,045,628

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Information, continued:

Employer's Portion of the Collective Net Pension Liability:

The Enterprise's proportionate share of the net pension liability, as indicated in the prior table, is $5,176,782, or approximately 0.09% for nonhazardous pensions. The net pension liability was distributed based on 2017 actual employer contributions to the plan. The Enterprise's net pension liability is shown on the statement of net position as a noncurrent liability.

Measurement Date:

June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Changes Since Measurement Date:

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension Expense:

The Enterprise was allocated $1,091,355 related to the CERS for the year ended June 30, 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources:

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive CERS members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows of resources as of the measurement date include the following:

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

Pension Information, continued:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 6,421	$ 131,409
Difference between expected and actual earnings on plan investments	409,995	345,964
Change in assumptions	955,257	-
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	429,903	-
	1,801,576	477,373
The Enterprise's contributions subsequent to the measurement date	338,710	-
Total	$ 2,140,286	$ 477,373

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $338,710 will be recognized as a reduction of net pension liability in the year ended June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over the remaining service lives of participants with remaining amortization as follows:

Year ending June 30:	
2019	$ 592,138
2020	552,211
2021	246,327
2022	(66,473)
2023	-
	$ 1,324,203

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

Pension Plan Fiduciary Net Position:

Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Information:

Actuarial Assumptions and Other Inputs:

The total other postemployment benefits plan ("OPEB") was determined by an actuarial valuation as of June 30, 2017 using standard roll-forward techniques, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation:	2.30%
Payroll growth rate:	2.00%
Salary increases:	3.05%, average
Investment rate of return:	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Changes in Assumptions:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

Discount Rate Assumptions:

a. *Discount rate:* The discount rate used to measure the total OPEB liability was 5.84%, which was reduced from the 6.89% discount rate used in the prior year.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Information, continued:

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

b. *Projected cash flows:* The projection of cash flows used to determine the discount rate assumed that local employers and plan members would contribute the actuarily determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.

c. *Long-term rate of return:* The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

d. *Municipal bond rate:* The discount rate determination used a municipal bond rate of 3.56% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017.

e. *Periods of projected benefit payments:* Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the CERS's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the KRS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Information, continued:

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

f. *Assumed asset allocation, continued:*

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustee at 6.25% based on a blending of the factors described above.

g. *Sensitivity analysis:* The following presents the Enterprise's allocated portion of the net OPEB liability ("NPL") of the CERS, calculated using the discount rate of 5.84%, as well as what the Enterprise's allocated portion of net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Nonhazardous:			
Discount rate	4.84%	5.84%	6.84%
The Enterprise's Net OPEB Liability	$2,262,390	$1,777,987	$1,374,887

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Information, continued:

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

g. *Sensitivity analysis, continued:* The following presents the Enterprise's allocated portion of the net OPEB liability of the CERS calculated using the healthcare cost trend rate, as well as what the Enterprise's allocated portion of net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for non-hazardous:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Nonhazardous:			
The Enterprise's Net OPEB Liability	$1,363,807	$1,777,987	$2,316,396

Employer's Portion of the Collective OPEB Liability:

The Enterprise's proportionate share of the net OPEB liability, as indicated in the prior table, is $1,777,987, or approximately 0.09% for nonhazardous pensions. The net OPEB liability was distributed based on 2017 actual employer contributions to the plan. The Enterprise's net OPEB liability is shown on the statement of net position as a noncurrent liability.

Measurement Date:

June 30, 2017 is the actuarial valuation date and measurement date upon which the total OPEB liability is based.

Changes Since Measurement Date:

There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

OPEB Expense:

The Enterprise was allocated $202,608 related to the CERS for the year ended June 30, 2018.

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Information, continued:

Deferred Outflows of Resources and Deferred Inflows of Resources:

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive CERS members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. Deferred inflows and outflows of resources as of the measurement date include the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 4,938
Difference between expected and actual earnings on plan investments	-	84,027
Change in assumptions	386,879	-
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	-	4,126
	386,879	93,091
The Enterprise's contributions subsequent to the measurement date	109,940	-
Total	$ 496,819	$ 93,091

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of $109,940 will be recognized as a reduction of net OPEB liability in the year ended June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over the remaining service lives of participants with remaining amortization as follows:

Year ending June 30:	
2019	$ 50,550
2020	50,550
2021	50,550
2022	50,550
2023	71,556
Thereafter	20,032
	$ 293,788

7. Defined Benefit Pension and Other Postemployment Benefits Plan – Cost Sharing - CERS, continued

OPEB Information, continued:

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

In the previous table, positive amounts will increase OPEB expense while negative amounts will decrease pension expense.

OPEB Plan Fiduciary Net Position:

Detailed information about the OPEB plans' fiduciary net position is available in the separately issued OPEB plan financial reports.

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, 2018 and 2017 was $6,009,316 and $4,965,810, 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, 2018, areas 6 and 7 are closed and area 9 is the vertical expansion, which had capacity used of approximately 40% at June 30, 2018 and 24% at June 30, 2017. These amounts are based on what it would cost to perform all closure and postclosure care in the respective years 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, 2018, the total amount of closure and postclosure costs are estimated to be $8,750,152, leaving $2,740,836 remaining to be recognized. The remaining life of the landfill is estimated to be 33.9 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. At June 30, 2018 and 2017, $246,684 and $244,009, respectively, is held for closure and postclosure costs 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 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.

9. Reclassifications

Certain accounts in the June 30, 2017, financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2018, financial statements.

10. 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 $268,747 and $240,420 as of June 30, 2018 and 2017, respectively; and this is included in accounts receivable in the accompanying statements of net position. For the years ended June 30, 2018 and 2017, the total expense for billing and collection services was $85,788 and $83,231, respectively. For the years ended June 30, 2018 and 2017, the total expense for leachate purification services was $76,046 and $79,828, respectively. At June 30, 2018 and 2017, accounts payable for these services was $18,652 and $10,218, respectively.

The City of Hopkinsville assesses a percentage of Enterprise revenue as payment in lieu of taxes. For the years ended June 30, 2018 and 2017, the total expense for payment in lieu of taxes was $386,361 and $215,709, respectively. At June 30, 2018 and 2017, accounts payable for these payments was $32,690 and $18,810, respectively. See Notes 5 and 6 regarding payables to the City of Hopkinsville.

11. 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.

12. 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.

13. Commitments

At June 30, 2018, the Enterprise had the following construction project pending:

For the Reverse Osmosis Project, total expenditures at year end were approximately $1,290,410, with approximately $88,000 remaining for the project. For the new shop and gas pumps project, total expenditures at year end were approximately $704,095, with approximately $245,000 remaining for the project.

14. Supplemental Information for Statements of Cash Flows

For the year ended June 30, 2018, the Enterprise had certain noncash transactions involving the trade in of fixed assets. Generally, the cost of the new asset is increased by the net book value of the asset traded in. During the fiscal year of June 30, 2018, various equipment with a total book value of $0 were traded in toward the purchase of other vehicles.

15. Subsequent Events

Subsequent to year end, the City, on behalf of the Enterprise, entered into two capital lease agreements for trucks. Lease agreement #17 totals $770,272 and is set to expire February 2020. Lease agreement #18 totals $1,580,380 and is set to expire April 2020.

16. Prior Year Restatement

As a result of the implementation of GASB Statement No. 75 and the correction of an error related to CERS deferred outflows and deferred inflows in the prior year, beginning net position was restated as follows:

Balance at July 1, 2017, as previously reported	$ 1,065,759
Less: recording of beginning net OPEB liability and related deferred outflows and deferred inflows	(1,293,156)
Less: prior period adjustment for CERS deferred outflows and deferred inflows	(126,379)
Balance at July 1, 2017, as restated	$ (353,776)

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

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

	2018	2017	2016	2015
Nonhazardous:				
Enterprise's proportion of the net pension liability	0.088442%	0.076398%	0.073008%	0.070445%
Enterprise's proportionate share of the net pension liability	$ 5,176,782	$ 3,761,528	$ 3,138,976	$ 2,286,000
Enterprise's covered payroll	$ 2,161,508	$ 1,822,532	$ 1,688,607	$ 1,610,274
Enterprise's proportionate share of the net pension liability as a percentage of its covered payroll	239.50%	206.39%	185.89%	141.96%
Total pension plan's fiduciary net position	$ 6,687,237,095	$ 6,141,394,419	$ 6,440,799,856	$ 6,528,146,353
Total pension plan's pension liability	$ 12,540,544,538	$ 11,065,012,656	$ 10,740,325,421	$ 9,772,522,616
Total pension plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%

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

Note: Please read Note 7 in the notes to financial statements regarding detailed information on the Enterprise's pension plan. The County Employees Retirement System measurement date is twelve months prior to the Enterprise's financial statements; the 2018 measurement date is June 30, 2017, and the 2017 measurement date is June 30, 2016.

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

	2018	2017	2016	2015	2014
Statutorily required contributions	$ 338,710	$ 405,369	$ 320,925	$ 310,637	$ 305,286
Contributions in relation to the statutorily required contributions	(338,710)	(405,369)	(320,925)	(310,637)	(305,286)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Enterprise's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
Enterprise's covered payroll	$2,339,156	$2,161,508	$1,822,532	$1,688,607	$1,610,274
Contributions as a percentage of covered payroll	14.48%	18.75%	17.61%	18.40%	18.96%

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

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

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

		2018
Nonhazardous:		
Enterprise's proportion of the net OPEB liability		0.088442%
Enterprise's proportionate share of the net OPEB liability	$	1,777,987
Enterprise's covered payroll	$	2,161,508
Enterprise's proportionate share of the net OPEB liability as a percentage of its covered payroll		82.26%
Total plan fiduciary net position	$	2,212,535,662
Total OPEB liability	$	4,222,877,716
Total plan fiduciary net position as a percentage of the total OPEB liability		52.39%

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

Note: Please read Note 7 in the notes to financial statements regarding detailed information on the Enterprise's OPEB plan. The County Employees Retirement System measurement date is twelve months prior to the Enterprise's financial statements; the 2018 measurement date is June 30, 2017.

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

	2018
Statutorily required contributions	$ 109,940
Contributions in relation to the statutorily required contributions	(109,940)
Annual contribution deficiency (excess)	$ -
Enterprise's contributions as a percentage of statutorily required contribution for OPEB	100.00%
Enterprise's covered payroll	$ 2,339,156
Contributions as a percentage of covered payroll	4.70%

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

Note: Please read Note 7 in the notes to financial statements regarding detailed information on the Enterprise's OPEB 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, 2018, 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 December 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hopkinsville Solid Waste Enterprise'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 Hopkinsville Solid Waste Enterprise's internal control. Accordingly, we do not express an opinion on the effectiveness of Hopkinsville Solid Waste 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hopkinsville Solid Waste 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
December 20, 2018