

**HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY**

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

**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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**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2018**

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**Calvin Givens, Chairman  
Charles Turner, Vice Chairman  
Jim Blair  
Janet Calhoun  
Thomas Grant, Council Member**

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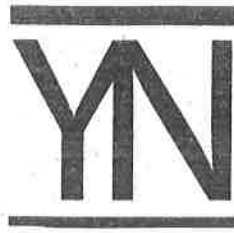
**Dan Kemp**

**PRESIDENT AND CEO**

**Derrick Watson**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
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**YORK, NEEL & ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***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 respective financial position of the business-type activities of HWEA, 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 discussed in Note 1 to the financial statements, during the year ended June 30, 2018, HWEA 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 Management's Discussion and Analysis on pages 4 through 11, the Schedule of HWEA's Proportionate Share of the Net Pension Liability on page 56, the Schedule of HWEA's Pension Contributions on page 57, the Schedule of HWEA's Proportionate Share of the Net OPEB Liability on page 58, and the Schedule of HWEA's OPEB Contributions on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HWEA's basic financial statements. The supporting schedules on pages 60 through 70 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules on pages 60 through 70 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of HWEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HWEA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HWEA's internal control over financial reporting and compliance.

*York, Neel & Associates, LLP*

Hopkinsville, Kentucky  
December 11, 2018

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Hopkinsville Water Environment Authority Water, Sewer, and Gas Departments (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the basic financial statements to enhance their understanding of financial performance.

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**FINANCIAL HIGHLIGHTS**

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- ❑ For the year ended June 30, 2018, HWEA's total assets and deferred outflows of resources increased \$1.14 million, while total liabilities and deferred inflows of resources increased \$1.11 million, resulting in total net position increasing approximately \$28 thousand over the course of the year's operations.
- ❑ For the year ended June 30, 2018, management of HWEA implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This implementation resulted in HWEA reporting an OPEB liability of \$2,734,769 and \$2,145,071 at June 30, 2018 and 2017, respectively, as well as deferred outflows and inflows of resources relating to the OPEB.
- ❑ Additional changes in long-term debt were the result of HWEA taking draws from certain Kentucky Infrastructure Authority loans as well as from two lines of credit from a local bank in order to finance various construction projects and then paying down that debt.
- ❑ HWEA's operating revenues increased 7.44% during the year ended June 30, 2018, while operating expenses decreased 3.11%. The 12% water rate increase that HWEA implemented in July 2017 helps explain the increase in operating revenues.
- ❑ The most significant change in nonoperating revenues and expenses comes from the loss recorded on the sale of fixed assets. These amounts will fluctuate depending on the volume of disposals in any given year. For both the years ended June 30, 2018 and 2017, an overall loss was recorded on the sale of fixed assets, which is a result of disposing various assets that were not fully depreciated at the time of disposal.
- ❑ For the year ended June 30, 2018, management of HWEA also implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement calls for the expensing of interest cost incurred before the end of a construction period in the period in which the cost is incurred rather than including it in the historical cost of the underlying capital asset. Interest expense on outstanding debt increased \$375,980, in part, because of the implementation of GASB Statement No. 89.
- ❑ HWEA received grant income from the Kentucky Infrastructure Authority totaling \$109,440 during the year ended June 30, 2018, to help fund certain construction projects.



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

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**REQUIRED FINANCIAL STATEMENTS**

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

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

All of HWEA’s revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of HWEA’s operations for the years ended June 30, 2018 and 2017, and can be used to determine profitability, credit worthiness, and whether HWEA has successfully recovered all of its costs through its user fees and other charges.

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

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**FINANCIAL ANALYSIS OF THE HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**

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The most common financial question posed to the Hopkinsville Water Environment Authority is “How did we do financially during fiscal year 2018?” The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about HWEA’s activities in a way that will help answer this question.

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**NET POSITION**

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

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

	<u>FY 2018</u>	As <u>Restated FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$16,197	\$17,435	\$ (1,238)	(7.10)%
Capital Assets	112,045	111,396	649	0.58 %
Deferred Outflows of Resources	<u>4,219</u>	<u>2,494</u>	<u>1,725</u>	<u>69.17 %</u>
Total Assets and Deferred Outflows of Resources	<u>132,461</u>	<u>131,325</u>	<u>1,136</u>	<u>0.86 %</u>
Long-term Debt Outstanding	78,657	79,635	(978)	(1.23)%
Other Liabilities	933	1,033	(100)	(9.68)%
Deferred Inflows of Resources	<u>7,795</u>	<u>5,609</u>	<u>2,186</u>	<u>38.97 %</u>
Total Liabilities and Deferred Inflows of Resources	<u>87,385</u>	<u>86,277</u>	<u>1,108</u>	<u>1.28 %</u>
Net Investment in				
Capital Assets	44,870	40,905	3,965	9.69 %
Restricted	2,032	2,000	32	1.60 %
Unrestricted	<u>(1,826)</u>	<u>2,143</u>	<u>(3,969)</u>	<u>(185.21)%</u>
Total Net Position	<u>\$45,076</u>	<u>\$45,048</u>	<u>\$ 28</u>	<u>0.06 %</u>

As can be seen from the table above, net position increased \$28 thousand during the year ended June 30, 2018, as a result of increases in total assets and deferred outflows of resources as well as increases in total liabilities and deferred inflows of resources. The increase in capital assets is largely due to significant ongoing water, sewer, and natural gas construction projects. Draws on various loans from KIA toward construction projects, along with draws from two lines of credit at a local bank to fund certain water and gas projects, and the subsequent repayment of those loans help to explain the net change in long-term debt outstanding. Other factors causing increases to long-term debt are the requirements per GASBS No. 68 and GASBS No. 75 to record HWEA's portion of the net pension liability and the net OPEB liability associated with the statewide local government retirement plan in which HWEA participates. GASBS No. 68 and GASBS No. 75 also account for changes to both deferred inflows and outflows of resources.

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A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**CHANGES IN NET POSITION**

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

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

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

	<u>FY 2018</u>	As <u>Restated</u> <u>FY 2017</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Operating Revenues	\$ 16,797	\$ 15,634	\$ 1,163	7.44 %
Nonoperating Revenues	<u>358</u>	<u>223</u>	<u>135</u>	<u>60.54 %</u>
Total Revenues	<u>17,155</u>	<u>15,857</u>	<u>1,298</u>	<u>8.19 %</u>
Depreciation Expense	4,477	4,388	89	2.03 %
Other Operating Expenses	10,184	10,743	(559)	(5.20)%
Interest Expense	1,839	1,463	376	25.70 %
Other Nonoperating Expenses	<u>798</u>	<u>97</u>	<u>701</u>	<u>722.68 %</u>
Total Expenses	<u>17,298</u>	<u>16,691</u>	<u>607</u>	<u>3.64 %</u>
Income/(Loss) before Contributions and Transfers	(143)	(834)	691	82.85 %
Capital Contributions	<u>171</u>	<u>184</u>	<u>(13)</u>	<u>(7.07)%</u>
Change in Net Position	<u>28</u>	<u>(650)</u>	<u>678</u>	<u>104.31 %</u>
Beginning Net Position, as restated	<u>45,048</u>	<u>45,698</u>	<u>(650)</u>	<u>(1.42)%</u>
Ending Net Position	<u>\$ 45,076</u>	<u>\$ 45,048</u>	<u>\$ 28</u>	<u>0.06 %</u>

As can be seen from the table above, operating revenues increased \$1.2 million, which is a result of the 12% water rate increase that was implemented in July 2017. The main reason for the \$559 thousand decrease in other operating expenses pertains to employee benefits as a result of implementing GASBS No. 75, as discussed in the financial highlights section above. Upon implementation, management had to retrospectively record HWEA's shares of the net OPEB liability along with the related deferred outflows and inflows of resources as well as OPEB expense. One of the reasons interest expense increased \$376 thousand is due to the implementation of GASBS no. 89 (also discussed above). Other nonoperating expenses increased \$701 thousand because of disposing of various assets at a loss during the year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**BUDGETARY HIGHLIGHTS**

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

**Table A-3  
Budget vs. Actual  
FY 2018  
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$ 16,730	\$ 16,797	\$ 67
Nonoperating revenues	67	358	291
Operating expenses and depreciation	(14,550)	(14,661)	(111)
Nonoperating expenses	<u>(1,579)</u>	<u>(2,637)</u>	<u>(1,058)</u>
Income (loss) before contributions and transfers	<u>\$ 668</u>	<u>\$ (143)</u>	<u>\$ (811)</u>

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**CAPITAL ASSETS**

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At June 30, 2018, HWEA had \$190 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2018 and 2017, various capital assets were purchased and/or constructed and placed into service, and various capital assets were disposed of either because the asset had been sold or was no longer in service.

Construction in progress at June 30, 2018, consisted of work done on various water projects including the rehabilitation of water tanks. The installation of natural gas lines and various sewer related projects, including phase 8 of the Hammond-Wood wastewater treatment plant and phase 7 priority 2 rehab, are also included in the balance. Certain projects were also completed and placed into service during the year ended June 30, 2018, with the largest project being the installation of approximately 5.6 miles of 20" ductile iron water main to serve the Fort Campbell Army Post with a redundant connection for domestic water. See Note 12 to the financial statements for information on construction commitments.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**CAPITAL ASSETS (cont.)**

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**Table A-4  
Capital Assets**

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Water	\$ 93,459,458	\$ 93,436,044	\$ 23,414	0.03 %
Sewerage	93,164,212	91,239,882	1,924,330	2.11 %
Gas	<u>3,849,289</u>	<u>3,324,819</u>	<u>524,470</u>	<u>15.77 %</u>
	190,472,959	188,000,745	2,472,214	1.31 %
Less: Accumulated Depreciation	<u>(78,428,100)</u>	<u>(76,604,261)</u>	<u>(1,823,839)</u>	<u>(2.38)%</u>
Net Property, Plant and Equipment	<u>\$112,044,859</u>	<u>\$111,396,484</u>	<u>\$ 648,375</u>	<u>0.58 %</u>

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**DEBT ADMINISTRATION**

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

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

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

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**OTHER INFORMATION SIGNIFICANT TO OPERATIONS**

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A series of water and sewer rate increases were approved and became effective over the past several years. The latest water rate increase became effective July 1, 2017, and the latest sewer rate increase became effective July 1, 2014. A series of subsequent sewer rate increases will become effective July 1, 2018, 2019, and 2020, with a possible fourth increase on July 1, 2021. These future increases will impact water and sewer revenues of HWEA for the coming years.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)**

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**OTHER INFORMATION SIGNIFICANT TO OPERATIONS (cont.)**

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HWEA is also currently in the design stage of a \$39.3 million renovation and expansion of the Hammond Wood Waste Water Treatment Plant.

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

During the year ended June 30, 2018, HWEA finalized and placed into service construction of approximately 5.6 miles of 20" ductile iron water main to serve the Fort Campbell Army Post with a redundant connection for domestic water. At that time, the revenue lease that the City of Hopkinsville had entered into on behalf of HWEA was closed, and a ten-year repayment schedule was established. HWEA began making principal and interest payments on this revenue lease in October 2017 from payments received from USACE, as established in the agreement between HWEA and USACE.

As of June 30, 2018, Phase II of the 8" natural gas pipeline project with USACE mentioned above is on hold due to bids on a portion of the project exceeding both the engineer's estimate as well as the amount of funds available for the project. HWEA is currently seeking the additional funding needed to complete the project.

Subsequent to the year ended June 30, 2018, HWEA's Board approved the motion to purchase a new combination jet-vac truck for Oak Grove at a cost of \$305,996.

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**FINAL COMMENTS**

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

# **Financial Statements**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENTS OF NET POSITION  
June 30, 2018 and 2017**

	<b>2018</b>	<b>As Restated 2017</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 8,190,569	\$ 8,349,546
Customer receivables	1,094,691	1,002,380
Inventory	258,315	240,539
Prepaid insurance	33,626	7,738
Accrued interest on note receivable	363	404
Total current assets	9,577,564	9,600,607
<b>Restricted assets:</b>		
Cash and cash equivalents	2,031,784	2,001,799
Total restricted assets	2,031,784	2,001,799
<b>Property, plant and equipment:</b>		
Property, plant and equipment	181,733,543	178,132,484
Unclassified plant - construction in progress, engineering fees, and other costs	8,739,416	9,868,261
Accumulated depreciation	(78,428,100)	(76,604,261)
Net property, plant and equipment	112,044,859	111,396,484
<b>Notes receivable</b>	176,855	223,933
<b>Other receivables</b>	4,411,310	5,608,881
<b>Deferred outflows of resources:</b>		
Deferred outflows from pension	2,977,411	1,780,697
Deferred outflows from OPEB	749,997	156,664
Deferred refunding costs	491,351	556,100
Total deferred outflows of resources	4,218,759	2,493,461
Total assets and deferred outflows of resources	\$ 132,461,131	\$ 131,325,165

Continued



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**  
**WATER, SEWER, AND GAS DEPARTMENTS**  
**A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**  
**STATEMENTS OF NET POSITION (continued)**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>As Restated 2017</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 2,394,205	\$ 5,464,534
Payable to City of Hopkinsville, current portion	1,655,000	1,525,000
Customer deposits	112,837	97,602
Accrued interest	389,587	350,914
Construction retainage payable	132,665	328,675
Accounts payable	254,263	226,498
Accrued salaries	43,850	29,782
Accrued compensated absences	<u>185,662</u>	<u>174,037</u>
Total current liabilities	<u>5,168,069</u>	<u>8,197,042</u>
<b>Long-term debt:</b>		
Revenue bonds payable, net of current portion	2,352,886	2,601,369
KIA loans payable, net of current portion	39,906,543	38,585,354
Revenue leases - Planters, net of current portion	3,427,599	2,928,284
Payable to City of Hopkinsville, net of current portion	17,796,926	19,614,798
Net pension liability	7,962,547	6,361,838
OPEB liability	2,734,769	2,145,071
Compensated absences, net of current portion	<u>240,727</u>	<u>234,911</u>
Total long-term debt	<u>74,421,997</u>	<u>72,471,625</u>
Total liabilities	<u>79,590,066</u>	<u>80,668,667</u>
<b>Deferred inflows of resources:</b>		
Deferred revenue - USACE	6,917,828	5,608,881
Deferred inflows from pension	734,261	-
Deferred inflows from OPEB	<u>143,185</u>	<u>-</u>
Total deferred inflows of resources	<u>7,795,274</u>	<u>5,608,881</u>
<b>Net position:</b>		
Net investment in capital assets	44,870,386	40,904,570
Restricted:		
Debt reserves	2,031,784	2,000,308
Unrestricted (deficit)	<u>(1,826,379)</u>	<u>2,142,739</u>
Total net position	<u>45,075,791</u>	<u>45,047,617</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 132,461,131</u>	<u>\$ 131,325,165</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**  
**WATER, SEWER, AND GAS DEPARTMENTS**  
**A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the years ended June 30, 2018 and 2017**

	<b>2018</b>	<b>As Restated 2017</b>
<b>Operating revenues:</b>		
Charges for services (net of allowances of \$115,136 and \$75,364 for 2018 and 2017, respectively)	\$ 16,416,335	\$ 15,359,787
Other operating revenue	380,874	274,676
Total operating revenues	16,797,209	15,634,463
<b>Operating expenses:</b>		
Water source of supply	365,469	328,233
Water purification	1,448,330	1,157,789
Water distribution	617,879	555,540
Sewerage plant	2,635,715	2,250,441
Sewerage mains and laterals	593,099	413,260
Administrative and general	4,294,370	5,853,272
Technical services	229,318	185,079
Depreciation	4,477,069	4,387,789
Total operating expenses	14,661,249	15,131,403
Operating income	2,135,960	503,060
<b>Nonoperating revenues (expenses):</b>		
Interest revenue	195,374	60,397
Gain (loss) on sale of fixed assets	(733,440)	(33,044)
Amortization of deferred refunding costs	(64,749)	(64,749)
Amortization of debt discounts and premiums	162,353	162,353
Interest expense	(1,838,541)	(1,462,561)
Total nonoperating revenues (expenses)	(2,279,003)	(1,337,604)
Income (loss) before contributions and transfers	(143,043)	(834,544)
<b>Capital contributions:</b>		
Capital assets contributed by developers	61,777	184,409
Grant income	109,440	-
Change in net position	28,174	(650,135)
<b>Net position - beginning of year, as restated</b>	45,047,617	45,697,752
<b>Net position - end of year</b>	<b>\$ 45,075,791</b>	<b>\$ 45,047,617</b>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2018 and 2017**

	<b>2018</b>	<b>As Restated 2017</b>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 16,339,259	\$ 15,423,759
Paid to suppliers for goods and services	(4,232,904)	(3,931,141)
Paid to employees for services - including benefits	(4,657,859)	(4,625,201)
Other operating revenue	261,218	274,676
Net cash provided (used) by operating activities	7,709,714	7,142,093
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(5,886,631)	(7,247,286)
Proceeds from disposition of fixed assets	2,955	28,217
Proceeds of capital debt	4,046,654	6,008,972
Principal paid on capital debt	(7,070,481)	(4,261,043)
Interest paid on capital debt	(1,799,870)	(1,404,088)
Net cash provided (used) by capital and related financing activities	(10,707,373)	(6,875,228)
<b>Cash flows from investing activities</b>		
Collection of notes receivable	47,078	46,531
Collection of other receivable	2,626,174	-
Interest earned on investments and reinvested	195,415	60,437
Net cash provided (used) by investing activities	2,868,667	106,968
Net increase (decrease) in cash and cash equivalents	(128,992)	373,833
Cash and cash equivalents at beginning of year (includes restricted assets of \$2,001,799 and \$5,127,645 for 2018 and 2017, respectively)	10,351,345	9,977,512
Cash and cash equivalents at end of year (includes restricted assets of \$2,031,784 and \$2,001,799 for 2018 and 2017, respectively)	\$ 10,222,353	\$ 10,351,345

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, HOPKINSVILLE  
STATEMENTS OF CASH FLOWS (continued)  
For the years ended June 30, 2018 and 2017**

	2018	As Restated 2017
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
<b>Cash flows from operating activities</b>		
Operating income	\$ 2,135,960	\$ 503,060
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,477,069	4,387,789
Amortization of deferred revenue - USACE	(119,656)	-
Pension expense (GASBS No. 68)	1,138,256	337,600
OPEB expense (GASBS No. 75)	139,551	1,988,406
Changes in assets and liabilities		
(Increase)/decrease in customer receivables	(92,311)	61,187
(Increase)/decrease in inventory	(17,776)	56,330
(Increase)/decrease in prepaid expenses	(25,888)	26,058
Increase/(decrease) in accounts payable	27,765	(129,879)
Increase/(decrease) in customer deposits	15,235	2,785
Increase/(decrease) in accrued salaries and compensated absences	31,509	(91,243)
Net cash provided (used) by operating activities	\$ 7,709,714	\$ 7,142,093
<b><u>Noncash Capital and Related Financing and Investing Items</u></b>		
Capitalized interest	\$ -	\$ 339,377
Capital assets contributed by developers	61,777	184,409

See accompanying notes to financial statements.

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Reporting Entity

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

b. Basis of Accounting

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

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

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

b. Basis of Accounting, continued

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

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

c. Separate Accounting

On December 17, 1992, HWEA was approved for a low interest loan from the Kentucky Infrastructure Authority (KIA). Due to federal requirements under this loan program, HWEA, as of July 1, 1993, began accounting for the water and sewer systems separately. Beginning July 1, 2014, HWEA also began separately accounting for natural gas transactions. See Supplemental Schedules and Note 9 for information on segment reporting.

d. Cash and Cash Equivalents, Deposits and Investments

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

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

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

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

e. Inventories

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

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NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

f. Prepaid Expenses

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

g. Restricted Assets

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

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

	<u>2018</u>	<u>2017</u>
Construction fund	\$ -	\$ 1,491
Equipment maintenance and replacement fund	<u>2,031,784</u>	<u>2,000,308</u>
Total restricted assets	<u>\$ 2,031,784</u>	<u>\$ 2,001,799</u>

For the years ended June 30, 2018 and 2017, the equipment maintenance and replacement fund includes \$2,031,784 and \$2,000,308, respectively, to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority.

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

h. Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of the respective asset. Property, plant and equipment donated to HWEA are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. HWEA maintains a capitalization threshold of \$2,500.

i. Compensated Absences

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

j. Long-term Debt

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

During the year ended June 30, 2015, three separate bonds were issued by the City of Hopkinsville on behalf of HWEA. The 2014B bonds were issued to finance a portion of the natural gas project; the 2014C bonds were issued to currently refund the 2001H and 2004B KY Rural Water Finance bonds associated with the Oak Grove sewer system; and the 2015A bonds were issued to advance refund the 2005A bonds associated with the Lake Barkley Raw Water Project. Both refundings were done to achieve debt savings. GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized.



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NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

k. Capital Contributions

Construction and acquisition of capital assets are financed, in part, from governmental grants and contributions in aid of construction from property owners, developers, and other sources. The revenues from capital contributions are part of the change in net position.

l. Deferred Outflows and Inflows of Resources

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

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

m. Net Position

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

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NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

n. 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.

o. Estimates

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

p. 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.

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NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

q. Deficit Net Position

HWEA had deficit unrestricted net position at June 30, 2018, of \$1,826,379. This deficit was caused primarily due to the accrual of both the net pension liability and the OPEB liability. HWEA expects results from future operations to fund such costs.

**2. DEPOSITS AND INVESTMENTS**

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

a. Deposits

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that in the event of bank failure, HWEA's deposits may not be returned, or HWEA will not be able to recover collateral securities in the possession of an outside party. Kentucky state law requires that all of HWEA's funds be fully insured or collateralized. As of June 30, 2018 and 2017, none of HWEA's deposited funds were exposed to custodial credit risk.

b. Investments

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, HWEA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counter party or a counter party's trust department or agent, but not in the government's name. As of June 30, 2018 and 2017, HWEA had no investments; therefore, there were no investments that were exposed 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. HWEA has no investment policy that limits its investment choices other than the limitations of Kentucky Revised Statute 66.480 that permits HWEA to invest in U.S. Treasury obligations, U.S. Agency obligations, certain federal instruments, repurchase agreements, commercial bank certificates, savings and loan deposits, and the Commonwealth of Kentucky investment pool.

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NOTES TO FINANCIAL STATEMENTS**

**2. DEPOSITS AND INVESTMENTS, continued**

b. Investments, continued

Concentration of Credit Risk:

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

Interest Rate Risk:

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

Foreign Currency Risk:

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

**3. RECEIVABLES**

Net customer receivables include the following as of June 30:

	<u>2018</u>	<u>2017</u>
Customer accounts receivable	\$1,074,366	\$ 989,842
Allowance for uncollectible	-	-
Miscellaneous receivables	<u>20,325</u>	<u>12,538</u>
Total receivables	<u>\$1,094,691</u>	<u>\$1,002,380</u>

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

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

	<u>2018</u>	<u>2017</u>
Accounts charged off in current period	\$138,810	\$127,282
Recovery of accounts previously charged off	<u>(42,436)</u>	<u>(39,687)</u>
Net bad debts	<u>\$ 96,374</u>	<u>\$ 87,595</u>

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**3. RECEIVABLES, continued**

HWEA has a note receivable from the Christian County Board of Education (CCBE) for installation of sewer lines, due in annual installments of \$32,049 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance of this receivable was \$31,485 and \$62,411 at June 30, 2018 and 2017, respectively.

HWEA also has a note receivable from the Hopkinsville Industrial Foundation (HIF) for the installation of sewer lines in the industrial park, due in semi-annual installments including interest at 1.0%, due April 1, 2027. The balance of this receivable was \$145,370 and \$161,522 at June 30, 2018 and 2017, respectively.

During the year ended June 30, 2015, HWEA entered into agreements with USACE to design and construct a natural gas pipeline and a water line to serve the Fort Campbell Army Post with a redundant connection for natural gas and domestic water. These construction projects were to be financed with loans from a local bank; but once the construction of these projects is complete, HWEA is to be reimbursed for the full amount of the projects over a ten-year period by USACE. As a result of this arrangement, HWEA has recorded two separate receivables (with deferred revenue offsetting each receivable) for the amount of funds drawn on each loan. Once the projects are complete and USACE begins reimbursing HWEA, the other receivable will be written down; and the deferred revenue balance will be amortized to revenue over the same period of time the underlying assets are being depreciated.

During the year ended June 30, 2018, the water line project that will serve Ft. Campbell Army Post with a redundant supply of domestic water was completed, the line of credit associated with that particular project was closed out, and USACE began repaying HWEA. The first installment payment was a lump sum payment of \$2,499,906 followed by regular monthly installments. USACE is currently making monthly installment payments of \$24,325 including interest at 4.0%, due August 1, 2027. The balance of this other receivable was \$2,236,942 and \$4,006,585 at June 30, 2018 and 2017, respectively. Deferred revenue associated with this water line project is also being amortized now that the project has been completed and put into service. For the years ended June 30, 2018 and 2017, \$119,656 and \$0, respectively, was amortized to miscellaneous income. The balance of this deferred revenue account was \$4,743,460 and \$4,006,585 at June 30, 2018 and 2017, respectively.

Since the natural gas pipeline project that will serve the Ft. Campbell Army Post with a redundant connection for natural gas was not yet completed as of June 30, 2018, USACE has not started repaying the balance of the other receivable associated with this project, and the related deferred revenue account is not yet being amortized to revenue. The balance of this other receivable was \$2,174,368 and \$1,602,296 at June 30, 2018 and 2017, respectively. The balance of this deferred revenue account was \$2,174,368 and \$1,602,296 at June 30, 2018 and 2017, respectively.

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**3. RECEIVABLES, continued**

The total balance of notes receivable, other receivables, and deferred revenue as of June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Note receivable - CCBE	\$ 31,485	\$ 62,411
Note receivable - HIF	<u>145,370</u>	<u>161,522</u>
Total Notes receivable	<u>\$ 176,855</u>	<u>\$ 223,933</u>
Other receivable - USACE - Water line	\$ 2,236,942	\$ 4,006,585
Other receivable - USACE - Gas line	<u>2,174,368</u>	<u>1,602,296</u>
Total Other receivables	<u>\$ 4,411,310</u>	<u>\$ 5,608,881</u>
Deferred revenue - USACE - Water line	\$ 4,743,460	\$ 4,006,585
Deferred revenue - USACE - Gas line	<u>2,174,368</u>	<u>1,602,296</u>
Total Deferred revenue - USACE	<u>\$ 6,917,828</u>	<u>\$ 5,608,881</u>

**4. INVENTORY**

Inventory as of June 30, 2018 and 2017, consisted of materials and supplies with a weighted-average cost of \$258,315 and \$240,539, respectively.

**5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of June 30, 2018, is as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	9,868,261	5,456,287	6,585,132	8,739,416
Capital Assets Being Depreciated:				
Structures and improvements	165,301,579	7,092,120	3,226,653	169,167,046
Equipment	9,916,145	92,495	356,903	9,651,737
Vehicles	1,342,920	-	-	1,342,920
Less Accumulated Depreciation:				
Structures and improvements	67,229,734	4,154,921	2,412,722	68,971,933
Equipment	8,883,204	197,372	240,508	8,840,068
Vehicles	<u>491,323</u>	<u>124,776</u>	<u>-</u>	<u>616,099</u>
Total	<u>\$111,396,484</u>	<u>\$ 8,163,833</u>	<u>\$ 7,515,458</u>	<u>\$112,044,859</u>

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**5. PROPERTY, PLANT AND EQUIPMENT, continued**

A summary of property, plant and equipment as of June 30, 2017, is as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	7,431,951	6,590,831	4,154,521	9,868,261
Capital Assets Being Depreciated:				
Structures and improvements	160,377,505	4,934,251	10,177	165,301,579
Equipment	9,800,996	170,939	55,790	9,916,145
Vehicles	1,311,355	96,138	64,573	1,342,920
Less Accumulated Depreciation:				
Structures and improvements	63,381,164	3,853,196	4,626	67,229,734
Equipment	8,488,356	408,039	13,191	8,883,204
Vehicles	<u>416,231</u>	<u>126,553</u>	<u>51,461</u>	<u>491,323</u>
Total	<u>\$108,207,896</u>	<u>\$ 7,404,371</u>	<u>\$ 4,215,783</u>	<u>\$111,396,484</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$4,477,069 and \$4,387,789, respectively.

Through June 30, 2017, HWEA capitalized net interest costs relating to constructing certain assets as part of the cost of the related asset; however, during the year ended June 30, 2018, HWEA adopted GASB Statement No. 89 (see note 1p.) and no longer capitalizes interest costs incurred during construction. Total interest expense for the years ended June 30, 2018 and 2017 was \$1,838,541 and \$1,801,938, respectively. For the years ended June 30, 2018 and 2017, \$0 and \$339,377 of total interest costs were capitalized while the remaining \$1,838,541 and \$1,462,561 were expensed, respectively.

**6. LONG-TERM DEBT**

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

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**6. LONG-TERM DEBT, continued**

Long-term debt at June 30 is as follows:

	<u>Rate</u>	<u>2018</u>	<u>2017</u>
<u>Revenue Bonds:</u>			
Series 1998-Maturing 2021	3.750% to 4.900%	\$ 270,000	\$ 350,000
Series 2010B-Maturing 2030	3.200% to 4.400%	<u>2,338,000</u>	<u>2,495,500</u>
Total Revenue Bonds		<u>2,608,000</u>	<u>2,845,500</u>
<u>KIA Loans:</u>			
KIA Fund A Phase II-Maturing 2018	1.800%	-	188,190
KIA Fund C Wastewater-Maturing 2018	4.000% to 4.250%	-	65,000
KIA Fund A Maturing 2020	0.400%	50,446	83,909
KIA Fund A Phase III-Maturing 2021	3.800%	141,755	194,826
KIA Fund B Water Plant-Maturing 2026	1.900%	1,621,375	1,807,339
KIA Fund A Phase IV-Maturing 2026	1.000%	1,875,314	2,114,923
KIA Fund A Phase V-Maturing 2027	1.000%	1,175,758	1,300,001
KIA Fund F, Drinking Water- Maturing 2028	1.000%	794,511	869,689
KIA Fund F Water-Maturing 2028	3.000%	2,302,368	2,497,111
KIA Fund F Water-Maturing 2032	1.000%	6,552,281	6,970,183
KIA Fund A Sewer-Maturing 2033	2.000%	380,191	401,727
KIA Fund A Sewer-Maturing 2034	2.000%	6,219,310	6,546,148
KIA Fund A Sewer-Maturing 2036	2.000%	6,501,325	6,798,704
KIA Fund A (Maturities not established-loans not closed)		10,926,542	9,824,378
KIA Fund F (Maturities not established-loans not closed)		<u>3,368,468</u>	<u>1,558,172</u>
Total KIA Loans		<u>41,909,644</u>	<u>41,220,300</u>
<u>Revenue Leases – Planters:</u>			
Water-Maturing 2027	4.000%	1,529,504	3,976,234
Gas (loan not closed)	4.500%	<u>2,040,196</u>	<u>1,544,138</u>
Total Revenue Leases - Planters		<u>3,569,700</u>	<u>5,520,372</u>
<u>Payable to City of Hopkinsville:</u>			
<u>General Obligation Bonds:</u>			
Series 2013B-Maturing 2034	2.000% to 4.500%	2,980,000	3,120,000
Series 2014B-Maturing 2038	1.500% to 6.625%	1,700,000	1,700,000
Series 2014C-Maturing 2029	1.100% to 3.250%	1,265,000	1,380,000
Series 2015A-Maturing 2026	4.000%	<u>12,240,000</u>	<u>13,510,000</u>
Total Payable to City of Hopkinsville		<u>\$ 18,185,000</u>	<u>\$ 19,710,000</u>



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**6. LONG-TERM DEBT, continued,**

	<u>Rate</u>	<u>2018</u>	<u>2017</u>
Net Pension Liability		<u>\$ 7,962,547</u>	<u>\$ 6,361,838</u>
Net OPEB Liability		<u>2,734,769</u>	<u>2,145,071</u>
Compensated Absences		<u>426,389</u>	<u>408,948</u>
 Total Long-Term Debt		 77,396,049	 78,212,029
Less: Maturities due within one year		(4,234,867)	(7,163,571)
Unamortized bond (discount) / premium		<u>1,260,815</u>	<u>1,423,167</u>
 Total Long-term Debt, Net		 <u>\$74,421,997</u>	 <u>\$72,471,625</u>

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

	<u>Principal Outstanding July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2018</u>	<u>Due Within One Year</u>
Compensated absences	\$ 408,948	\$ 191,478	\$ (174,037)	\$ 426,389	\$ 185,662*
Revenue bonds	2,845,500	-	(237,500)	2,608,000	249,000
KIA loans	41,220,300	3,359,403	(2,670,059)	41,909,644	2,003,103
Revenue leases – Planters	5,520,372	687,251	(2,637,923)	3,569,700	142,102
Payable to City of Hopkinsville:					
Gen. obligation bond – 2013B	3,120,000	-	(140,000)	2,980,000	145,000
Gen. obligation bond – 2014B	1,700,000	-	-	1,700,000	65,000
Gen. obligation bond – 2014C	1,380,000	-	(115,000)	1,265,000	120,000
Gen. obligation bond – 2015A	13,510,000	-	(1,270,000)	12,240,000	1,325,000
Net pension liability	6,361,838	1,600,709	-	7,962,547	-
Net OPEB liability	2,145,071	589,698	-	2,734,769	-
Unamortized bond premium	1,429,797	-	(162,871)	1,266,926	-
Unamortized bond discount	<u>(6,630)</u>	<u>-</u>	<u>519</u>	<u>(6,111)</u>	<u>-</u>
 Total	 <u>\$ 79,635,196</u>	 <u>\$ 6,428,539</u>	 <u>\$ (7,406,871)</u>	 <u>\$ 78,656,864</u>	 <u>\$ 4,234,867</u>

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

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**6. LONG-TERM DEBT, continued**

During the year ended June 30, 2017, the following changes occurred in long-term debt:

	Principal Outstanding July 1, 2016	Additions	Reductions	Principal Outstanding June 30, 2017	Due Within One Year
Compensated absences	\$ 360,826	\$ 213,547	\$ (165,425)	\$ 408,948	\$ 174,037*
Revenue bonds	3,233,000	-	(387,500)	2,845,500	237,500
KIA loans	41,534,114	2,084,729	(2,398,543)	41,220,300	2,634,946
Revenue leases – Planters	1,596,128	3,924,244	-	5,520,372	2,592,088
Payable to City of Hopkinsville:					
Gen. obligation bond – 2013B	3,255,000	-	(135,000)	3,120,000	140,000
Gen. obligation bond – 2014B	1,700,000	-	-	1,700,000	-
Gen. obligation bond – 2014C	1,500,000	-	(120,000)	1,380,000	115,000
Gen. obligation bond – 2015A	14,730,000	-	(1,220,000)	13,510,000	1,270,000
Net pension liability	5,081,523	1,280,315	-	6,361,838	-
Net OPEB liability	-	2,145,071	-	2,145,071	-
Unamortized bond premium	1,592,668	-	(162,871)	1,429,797	-
Unamortized bond discount	(7,147)	-	517	(6,630)	-
<b>Total</b>	<b><u>\$ 74,576,112</u></b>	<b><u>\$ 9,647,906</u></b>	<b><u>\$ (4,588,822)</u></b>	<b><u>\$ 79,635,196</u></b>	<b><u>\$ 7,163,571</u></b>

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

**Revenue Bonds:**

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

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

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**6. LONG-TERM DEBT, continued**

Revenue Bonds, continued:

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

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

Annual debt service requirements projected to maturity for all revenue bonds are as follows as of June 30, 2018:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 249,000	\$ 111,683	\$ 360,683
2020	261,500	101,341	362,841
2021	272,500	90,039	362,539
2022	185,000	77,929	262,929
2023	192,500	70,159	262,659
2024-2028	1,077,500	223,617	1,301,117
2029-2030	<u>370,000</u>	<u>21,780</u>	<u>391,780</u>
Total	<u>\$ 2,608,000</u>	<u>\$ 696,548</u>	<u>\$ 3,304,548</u>

As of June 30, 2018, HWEA has pledged future revenues of the water and sewer system to repay \$2,608,000 in total revenue bonds. Principal and interest on these bonds are payable through 2030, solely from the water and sewer system net revenues. Annual principal and interest on the bonds are expected to require approximately 2% of such net revenues (based on principal and interest payments for the year ending June 30, 2019, as a percentage of net water and sewer system revenues for the year ended June 30, 2018, which totaled \$16,797,209). Principal and interest paid for the year ended June 30, 2018, was \$361,488. As of June 30, 2018, pledged future revenues totaled \$3,304,548, which is the amount of the remaining principal and interest payments on these bonds.

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

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**6. LONG-TERM DEBT, continued**

KIA Loans:

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

Annual debt service requirements projected to maturity for all KIA loans are as follows as of June 30, 2018:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,003,103	\$ 463,084	\$ 2,466,187
2020	2,020,067	429,236	2,449,303
2021	2,007,630	394,802	2,402,432
2022	2,011,026	361,420	2,372,446
2023	2,044,481	327,964	2,372,445
2024-2028	9,507,970	1,128,070	10,636,040
2029-2033	6,319,513	457,375	6,776,888
2034-2037	<u>15,995,854</u>	<u>50,920</u>	<u>16,046,774</u>
Total	<u>\$41,909,644</u>	<u>\$ 3,612,871</u>	<u>\$ 45,522,515</u>

As of June 30, 2018, HWEA has pledged future revenues of the water and sewer system to repay \$41,909,644 in total KIA loans established from 1996 through 2018, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2037, solely from the water and sewer system net revenues. Annual principal and interest on these loans are expected to require approximately 15% of such net revenues (based on principal and interest payments for the year ending June 30, 2019, as a percentage of net water and sewer system revenues for the year ended June 30, 2018, which totaled \$16,797,209). Principal and interest paid for the year ended June 30, 2018, was \$3,427,534. As of June 30, 2018, pledged future revenues totaled \$45,522,515, which was the amount of the remaining principal and interest payments on these KIA loans.

Revenue Leases:

During the year ended June 30, 2016, HWEA entered into an agreement with USACE for the design and construction of approximately 5.6 miles of 20" ductile iron water main in order to serve the Fort Campbell Army Post with a redundant connection for domestic water supply. In order to help finance this construction project, the City of Hopkinsville, on behalf of HWEA, entered into a lease agreement with a local bank in which draws could be made from the lease through the end of construction, the aggregate of which could not exceed \$4,838,823. The interest rate on this lease agreement is 4.00%.

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**6. LONG-TERM DEBT, continued**

Revenue Leases, continued:

This project was finalized and placed into service during the year ended June 30, 2018, and repayment of the revenue began. During the period of construction, interest accrued daily on the total advances made, but was not payable until the first day of the month that was at least thirty days after the end of the construction period. Once repayment began, a lump sum payment of \$2.5 million was made, which included accrued but unpaid interest. The remainder of the unpaid principal balance plus interest is payable in 120 equal monthly installments based on a payment schedule that was established at the end of the construction period. Repayment of amounts associated with this lease will come from payments received from USACE. This lease matures October 1, 2027.

During the year ended June 30, 2016, HWEA entered into another agreement with USACE for the design and construction of approximately 7.9 miles of 8" natural gas pipeline in order to serve the Fort Campbell Army Post with a redundant connection for natural gas supply. In order to help finance this construction project, the City of Hopkinsville, on behalf of HWEA, entered into a lease agreement with a local bank in which draws can be made from the lease as construction progresses, the aggregate of which cannot exceed \$10,951,730. The interest rate on this lease agreement is 4.50%.

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

Annual debt service requirements projected to maturity for both revenue leases are as follows as of June 30, 2018:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 142,102	\$ 60,426	\$ 202,528
2020	147,890	54,637	202,527
2021	153,915	48,613	202,528
2022	160,183	42,343	202,526
2023	166,710	35,815	202,525
2024-2028	<u>2,798,900</u>	<u>73,078</u>	<u>2,871,978</u>
Total	<u>\$ 3,569,700</u>	<u>\$ 314,912</u>	<u>\$ 3,884,612</u>

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**6. LONG-TERM DEBT, continued**

Payable to City of Hopkinsville – General Obligation Bonds:

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

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

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

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

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

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**6. LONG-TERM DEBT, continued**

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

Annual debt service requirements projected to maturity for amounts payable to the City of Hopkinsville for general obligation bonds are as follows as of June 30, 2018:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,655,000	\$ 659,613	\$ 2,314,613
2020	1,710,000	598,868	2,308,868
2021	1,775,000	534,443	2,309,443
2022	1,845,000	467,081	2,312,081
2023	1,915,000	395,481	2,310,481
2024-2028	6,860,000	944,918	7,804,918
2029-2033	1,640,000	318,762	1,958,762
2034-2038	785,000	55,322	840,322
Total	<u>\$18,185,000</u>	<u>\$ 3,974,488</u>	<u>\$ 22,159,488</u>

Defeasance of Debt and Current and Advance Refundings:

As noted above, refunding bonds have been issued to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The proceeds from these refunding bonds have been placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in HWEA's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. As of June 30, 2018 and 2017, the amount of bonds outstanding that are considered defeased is undeterminable.

Current and advance refundings have resulted in defeasance losses that are being amortized over the life of the refunding bonds. The unamortized losses at June 30, 2018 and 2017 are shown on the statement of net position as deferred refunding costs under deferred outflows of resources. Amortization has been included in interest expense and was \$64,749 and \$64,749 for the years ended June 30, 2018 and 2017, respectively.

**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 HWEA 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.

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN –  
COST SHARING - CERS, continued**

General Information about the Pension Plan, continued:

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](http://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.

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.



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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Pension Benefits Provided, continued:

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.

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

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.

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**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, continued:

*Benefit:* Each year that a member is an active contributing member to the System, 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 System'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 System 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.

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**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:

HWEA 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.

HWEA has met 100% of the contribution funding requirements for the years ended June 30, 2018 and 2017. Total contributions recognized by the Plan were \$619,714 (\$464,785 related to pension and \$154,929 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 \$33,424.

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.

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Contributions, continued:

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

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.

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, 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.

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Actuarial Assumptions and Other Inputs, continued:

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.
- 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 used 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:

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

f. Assumed asset allocation, continued:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>2.00%</u>	<u>1.88%</u>
Total	<u>100.00%</u>	<u>6.56%</u>

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 HWEA's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 6.25%, as well as what HWEA'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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u>			
Discount rate	5.25%	6.25%	7.25%
HWEA's NPL	<u>\$10,042,493</u>	<u>\$7,962,547</u>	<u>\$6,222,688</u>

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Employer's Portion of the Collective Net Pension Liability:

HWEA's proportionate share of the net pension liability, as indicated in the prior table, is \$7,962,547, or approximately 0.14% for nonhazardous pensions. The net pension liability was distributed based on 2017 actual employer contributions to the plan. HWEA'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:

HWEA was allocated \$1,603,039 related to the CERS pension 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 System 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:



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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 9,876	\$ 202,124
Difference between expected and actual earnings on plan investments	630,624	532,137
Change in assumptions	1,469,306	-
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	<u>402,820</u>	<u>-</u>
	2,512,626	734,261
HWEA contributions subsequent to the measurement date	<u>464,785</u>	<u>-</u>
Total	<u>\$ 2,977,411</u>	<u>\$ 734,261</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measure date of \$464,785 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:	
2018	\$ 835,422
2019	736,154
2020	309,033
2021	(102,244)
2022	-
	<u>\$1,778,365</u>

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.

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**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%.

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Actuarial Assumptions and Other Inputs, continued:

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.
- 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 actuarially 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 System'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 System'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:

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

f. Assumed asset allocation, continued:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>2.00%</u>	<u>1.88%</u>
Total	<u>100.00%</u>	<u>6.56%</u>

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 HWEA's allocated portion of the net OPEB liability of the System, calculated using the discount rate of 5.84%, as well as what HWEA's allocated portion of the System's 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u> Discount rate	4.84%	5.84%	6.84%
HWEA's Net OPEB Liability	<u>\$3,479,842</u>	<u>\$2,734,769</u>	<u>\$2,114,751</u>

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**DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, continued**

Actuarial Assumptions and Other Inputs, continued:

Discount Rate Assumptions, continued:

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

<u>Nonhazardous:</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
HWEA’s Net OPEB Liability	<u>\$2,097,709</u>	<u>\$2,734,769</u>	<u>\$3,562,910</u>

Employer’s Portion of the Collective OPEB Liability:

HWEA’s proportionate share of the net OPEB liability, as indicated in the prior table, is \$2,734,769, or approximately 0.14% for nonhazardous pensions. The net OPEB liability was distributed based on 2017 actual employer contributions to the plan. HWEA’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:

HWEA was allocated \$311,637 related to the OPEB for the year ended June 30, 2018.

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**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, 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 System 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 7,596
Difference between expected and actual earnings on plan investments	-	129,244
Change in assumptions	595,068	-
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	-	6,345
	<u>595,068</u>	<u>143,185</u>
HWEA contributions subsequent to the measurement date	<u>154,929</u>	<u>-</u>
Total	<u>\$ 749,997</u>	<u>\$ 143,185</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measure date of \$154,929 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:	
2018	\$ 77,751
2019	77,751
2020	77,751
2021	77,751
2022	110,062
Thereafter	<u>30,817</u>
	<u>\$ 451,883</u>

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

**7. DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS, 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 plan's fiduciary net position is available in the separately issued OPEB plan financial reports.

**8. BUDGET**

Bond ordinances require that HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for the year ended June 30, 2018, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 16,729,389	\$16,797,209	\$ 67,820
Other Operating Expenses	(9,839,325)	(10,184,180)	(344,855)
Depreciation Expense	<u>(4,710,500)</u>	<u>(4,477,069)</u>	<u>233,431</u>
Operating Income	2,179,564	2,135,960	(43,604)
Nonoperating Revenues	67,400	357,727	290,327
Nonoperating Expenses	<u>(1,579,050)</u>	<u>(2,636,730)</u>	<u>(1,057,680)</u>
Income before Contributions and Transfers	<u>\$ 667,914</u>	<u>\$ (143,043)</u>	<u>\$ (810,957)</u>

**9. SEGMENT REPORTING**

HWEA has low interest loans from the Kentucky Infrastructure Authority (KIA) to finance its water and sewer departments. The two departments are accounted for in a single fund, but KIA relies solely on the revenue generated by the individual activities for repayment. The Water Department operates the water supply systems for Hopkinsville, Pembroke, and Crofton. The Sewer Department operates the sewage treatment plants, sewage pumping stations, and collection systems for Hopkinsville, Pembroke, Crofton, and Oak Grove. Summary financial information for each department as of and for the years ended June 30, 2018 and 2017, are presented on the following pages.

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

**9. SEGMENT REPORTING, continued**

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
<b>CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2018</b>				
Assets and deferred outflows of resources:				
Current assets	\$ 4,228,759	\$ 3,272,929	\$ 2,075,876	\$ 9,577,564
Capital assets	60,458,935	47,736,635	3,849,289	112,044,859
Other assets	<u>3,252,834</u>	<u>1,192,747</u>	<u>2,174,368</u>	<u>6,619,949</u>
Total assets	<u>67,940,528</u>	<u>52,202,311</u>	<u>8,099,533</u>	<u>128,242,372</u>
Deferred outflows of resources	<u>2,310,286</u>	<u>1,908,473</u>	<u>-</u>	<u>4,218,759</u>
Liabilities:				
Current liabilities	3,320,401	1,635,279	212,389	5,168,069
Noncurrent liabilities	<u>37,695,449</u>	<u>33,044,503</u>	<u>3,682,045</u>	<u>74,421,997</u>
Total liabilities	<u>41,015,850</u>	<u>34,679,782</u>	<u>3,894,434</u>	<u>79,590,066</u>
Deferred inflows of resources	<u>5,175,523</u>	<u>445,383</u>	<u>2,174,368</u>	<u>7,795,274</u>
Net position:				
Net investment in capital assets	25,827,693	18,940,449	102,244	44,870,386
Restricted	1,015,892	1,015,892	-	2,031,784
Unrestricted (deficit)	<u>(2,784,144)</u>	<u>(970,722)</u>	<u>1,928,487</u>	<u>(1,826,379)</u>
Total net position	<u>\$ 24,059,441</u>	<u>\$ 18,985,619</u>	<u>\$ 2,030,731</u>	<u>\$ 45,075,791</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2018**

Operating revenues (pledged against debt)	\$ 9,016,332	\$ 7,780,877	\$ -	\$ 16,797,209
Depreciation expense	(2,059,569)	(2,417,500)	-	(4,477,069)
Other operating expenses	<u>(4,709,953)</u>	<u>(5,474,227)</u>	<u>-</u>	<u>(10,184,180)</u>
Operating income	2,246,810	(110,850)	-	2,135,960
Nonoperating revenues (expenses):				
Investment income	109,475	61,396	24,503	195,374
Other nonoperating income	160,938	1,064	351	162,353
Interest expense	(1,127,182)	(635,346)	(76,013)	(1,838,541)
Other nonoperating expense	(753,558)	(44,631)	-	(798,189)
Capital contributions	61,777	109,440	-	171,217
Transfers	<u>(2,592,652)</u>	<u>2,068,366</u>	<u>524,286</u>	<u>-</u>
Change in net position	(1,894,392)	1,449,439	473,127	28,174
Beginning net position, as restated	<u>25,953,833</u>	<u>17,536,180</u>	<u>1,557,604</u>	<u>45,047,617</u>
Ending net position	<u>\$ 24,059,441</u>	<u>\$ 18,985,619</u>	<u>\$ 2,030,731</u>	<u>\$ 45,075,791</u>

**CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2018**

Net cash provided (used) by:				
Operating activities	\$ 2,078,824	\$ 5,106,604	\$ 524,286	\$ 7,709,714
Capital and related financing activities	(7,076,038)	(3,602,923)	(28,412)	(10,707,373)
Investing activities	<u>2,735,649</u>	<u>108,515</u>	<u>24,503</u>	<u>2,868,667</u>
Net increase (decrease)	(2,261,565)	1,612,196	520,377	(128,992)
Beginning cash and cash equivalents	<u>6,551,398</u>	<u>2,244,448</u>	<u>1,555,499</u>	<u>10,351,345</u>
Ending cash and cash equivalents	<u>\$ 4,289,833</u>	<u>\$ 3,856,644</u>	<u>\$ 2,075,876</u>	<u>\$ 10,222,353</u>



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

**9. SEGMENT REPORTING, continued**

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
<b>CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2017, as restated</b>				
Assets and deferred outflows of resources:				
Current assets	\$ 6,352,787	\$ 1,692,505	\$ 1,555,315	\$ 9,600,607
Capital assets	60,390,765	47,680,900	3,324,819	111,396,484
Other assets	5,008,046	1,224,087	1,602,480	7,834,613
Total assets	<u>71,751,598</u>	<u>50,597,492</u>	<u>6,482,614</u>	<u>128,831,704</u>
Deferred outflows of resources	<u>1,506,033</u>	<u>987,428</u>	<u>-</u>	<u>2,493,461</u>
Liabilities:				
Current liabilities	5,736,467	2,389,199	71,376	8,197,042
Noncurrent liabilities	37,560,756	31,659,531	3,251,338	72,471,625
Total liabilities	<u>43,297,223</u>	<u>34,048,730</u>	<u>3,322,714</u>	<u>80,668,667</u>
Deferred inflows of resources	<u>4,006,585</u>	<u>-</u>	<u>1,602,296</u>	<u>5,608,881</u>
Net position:				
Net investment in capital assets	22,511,506	18,319,583	73,481	40,904,570
Restricted	1,000,154	1,000,154	-	2,000,308
Unrestricted (deficit)	2,442,163	(1,783,547)	1,484,123	2,142,739
Total net position	<u>\$ 25,953,823</u>	<u>\$ 17,536,190</u>	<u>\$ 1,557,604</u>	<u>\$ 45,047,617</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2017, as restated**

Operating revenues (pledged against debt)	\$ 8,114,118	\$ 7,520,345	\$ -	\$ 15,634,463
Depreciation expense	(2,033,310)	(2,354,479)	-	(4,387,789)
Other operating expenses	(5,104,906)	(5,638,708)	-	(10,743,614)
Operating income	975,902	(472,842)	-	503,060
Nonoperating revenues (expenses):				
Investment income	26,380	24,990	9,027	60,397
Other nonoperating income	160,938	1,064	351	162,353
Interest expense	(893,043)	(569,518)	-	(1,462,561)
Other nonoperating expense	(56,857)	(40,936)	-	(97,793)
Capital contributions	184,409	-	-	184,409
Transfers	878,320	(1,486,208)	607,888	-
Change in net position	1,276,049	(2,543,450)	617,266	(650,135)
Beginning net position	24,677,784	20,079,630	940,338	45,697,752
Ending net position, as restated	<u>\$ 25,953,833</u>	<u>\$ 17,536,180</u>	<u>\$ 1,557,604</u>	<u>\$ 45,047,617</u>

**CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2017, as restated**

Net cash provided (used) by:				
Operating activities	\$ 5,411,022	\$ 1,337,308	\$ 393,763	\$ 7,142,093
Capital and related financing activities	(4,304,503)	(2,528,635)	(42,090)	(6,875,228)
Investing activities	26,380	71,561	9,027	106,968
Net increase (decrease)	1,132,899	(1,119,766)	360,700	373,833
Beginning cash and cash equivalents	5,418,499	3,364,214	1,194,799	9,977,512
Ending cash and cash equivalents	<u>\$ 6,551,398</u>	<u>\$ 2,244,448</u>	<u>\$ 1,555,499</u>	<u>\$ 10,351,345</u>

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

**10. CONTINGENCIES**

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

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

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

In a previous year, the City of Hopkinsville, Kentucky ("City") was awarded an Economic Initiative Grant from Housing and Urban Development ("HUD"), the proceeds of which were used to fund the construction of natural gas pipelines at the industrial mega site in Christian County, Kentucky. Since the project is not yet in service, the costs totaling \$3,985,399, as funded by the HUD grant, have been recorded as construction in progress on the City's financial statements. Once the project is in service, the operation of the gas lines will be the responsibility of HWEA; therefore, both the City and HWEA consider it appropriate to transfer the construction in progress costs from the City to HWEA so that HWEA can record the costs on their statement of net position. However, in order to transfer these costs, approval has to first be received from HUD, and if such approval is granted, the Hopkinsville City Council will then have to pass a municipal order to initiate the transfer, at which time HWEA's Board will have to accept the transfer. As of the date of this report, this approval process is currently underway and has not yet been finalized.

**11. RISK MANAGEMENT**

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

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

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

**11. RISK MANAGEMENT, continued**

HWEA has elected to retain risk related to employees' health insurance. There is a specific deductible of \$150,000 per employee per year, plus an additional liability corridor of \$75,000. There is no lifetime maximum benefit for members due to the Affordable Care Act. HWEA pays ARC Administrators a fee to administer this plan. All claims are paid out of the general funds of HWEA through a separate self-insurance checking account.

HWEA's health insurance premiums are composed of a fixed and a variable portion. The variable portion is based on actual claims experienced during the year and fluctuates each month based on claims. At June 30, 2018 and 2017, the claims liability was \$64,284 and \$53,347, respectively. Changes in the claims liability during the last two fiscal years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2016-2017	\$93,042	\$ 274,389	\$ 314,084	\$53,347
2017-2018	\$53,347	\$ 403,439	\$ 392,502	\$64,284

**12. CONSTRUCTION COMMITMENT**

At June 30, 2018, HWEA had several construction projects underway:

<u>Project</u>	<u>Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Water Tanks Rehab Project	\$ 2,151,410	\$ 400,000
Southpark Water Tank Project	11,789	340,000
Water Main Extension – Eagle Way Bypass	12,870	2,140,000
Locust Grove to I-24 – Phase 4	181,685	3,500,000
Natural Gas Project – Phase 1	1,720,704	4,000
FTC 8" Natural Gas – Phase 2	2,128,584	12,000,000
Oak Grove – Phase 2 – Patton/Derby/Good Hope	65,265	20,000
Hammond-Wood Phase 8	1,266,930	30,000,000
Phase 7 Priority 2 Sewer Rehab	<u>1,200,179</u>	<u>20,000</u>
Total	<u>\$ 8,739,416</u>	<u>\$ 48,424,000</u>

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

**12. CONSTRUCTION COMMITMENT, continued**

As of June 30, 2018, Phase II of the 8" natural gas pipeline project with USACE listed above is on hold due to bids on a portion of the project exceeding both the engineer's estimate as well as the amount of funds available for the project. HWEA is currently seeking the additional funding needed to complete the project.

**13. 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.

**14. RELATED PARTY TRANSACTIONS**

The City of Hopkinsville, on behalf of HWEA, has entered into lease agreements with a local bank to finance certain water and natural gas projects. The City of Hopkinsville, on behalf of HWEA, has also issued several general obligation bonds to finance certain water and natural gas projects and to also refund old revenue bonds. See note 6 for details of these transactions.

During the year ended June 30, 2017, the City of Hopkinsville approved a 12% water rate increase that became effective July 1, 2017. The City of Hopkinsville also approved a series of three sewer rate increases of 14% each that will be effective July 1, 2018, July 1, 2019, and July 1, 2020.

**15. SUBSEQUENT EVENTS**

A sewer rate increase went into effect as of July 1, 2018.

Also subsequent to the year ended June 30, 2018, HWEA's Board approved the motion to purchase a new combination jet-vac truck for Oak Grove at a cost of \$305,996.

**16. PRIOR YEAR RESTATEMENT**

As a result of the implementation of GASB Statement No. 75, beginning net position was restated as follows:

Balance at July 1, 2017, as previously reported	\$ 47,183,753
Subtract beginning net OPEB liability	<u>(2,136,136)</u>
Balance at July 1, 2017, as restated	<u>\$ 45,047,617</u>

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

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

<b><u>Nonhazardous:</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
HWEA's proportion of the net pension liability	0.136035%	0.129211%	0.118190%	0.114295%
HWEA's proportionate share of the net pension liability	\$ 7,962,547	\$ 6,361,838	\$ 5,081,523	\$ 3,708,000
HWEA's covered payroll	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
HWEA's proportionate share of the net pension liability as a percentage of its covered payroll	237.32%	203.18%	183.67%	141.45%
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 HWEA's pension plan. The County Employees Retirement System measurement date is twelve months prior to HWEA's financial statements; the 2018 measurement date is June 30, 2017, and the 2017 measurement date is June 30, 2016.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 464,785	\$ 464,029	\$ 394,384	\$ 365,433	\$ 371,486
Contributions in relation to the statutorily required contributions	<u>(464,785)</u>	<u>(464,029)</u>	<u>(394,384)</u>	<u>(365,433)</u>	<u>(371,486)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HWEA's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%
HWEA's covered payroll	\$ 3,256,186	\$ 3,355,136	\$ 3,131,198	\$ 2,766,612	\$ 2,621,446
Contributions as a percentage of covered payroll	14.27%	13.83%	12.60%	13.21%	14.17%

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

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

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

	<u>2018</u>
<b><u>Nonhazardous:</u></b>	
HWEA's proportion of the net OPEB liability	0.136035%
HWEA's proportionate share of the net OPEB liability	\$ 2,734,769
HWEA's covered payroll	\$ 3,355,136
HWEA's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.51%
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 HWEA's OPEB plan. The County Employees Retirement System measurement date is twelve months prior to HWEA's financial statements; the 2018 measurement date is June 30, 2017.



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

	<u><b>2018</b></u>
Statutorily required contributions	\$ 154,929
Contributions in relation to the statutorily required contributions	<u>(154,929)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>
HWEA's contributions as a percentage of statutorily required contribution for OPEB	100.00%
HWEA's covered payroll	\$ 3,256,186
Contributions as a percentage of covered payroll	4.76%

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

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

## **Supporting Schedules**

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF NET POSITION  
June 30, 2018**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
<b>Current assets</b>										
Cash and cash equivalents										
Petty cash and change fund	\$ 1,000	\$ 1,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Health claims fund	78,295	78,295	-	-	-	-	-	-	-	156,590
Employee reimbursement fund	14,951	-	-	-	-	-	-	-	-	14,951
Operation and maintenance fund	<u>2,978,282</u>	<u>2,560,044</u>	<u>2,075,876</u>	<u>130,908</u>	<u>130,908</u>	<u>70,505</u>	<u>70,505</u>	-	-	<u>8,017,028</u>
Total cash and cash equivalents	3,072,528	2,639,339	2,075,876	130,908	130,908	70,505	70,505	-	-	8,190,569
Customer receivables	662,207	322,756	-	10,165	9,672	19,446	8,966	61,479	-	1,094,691
Inventory	246,187	12,128	-	-	-	-	-	-	-	258,315
Prepaid insurance	16,813	16,813	-	-	-	-	-	-	-	33,626
Accrued interest on note receivable	-	<u>363</u>	-	-	-	-	-	-	-	<u>363</u>
Total current assets	<u>3,997,735</u>	<u>2,991,399</u>	<u>2,075,876</u>	<u>141,073</u>	<u>140,580</u>	<u>89,951</u>	<u>79,471</u>	<u>61,479</u>	-	<u>9,577,564</u>
<b>Restricted assets</b>										
Bond and interest redemption fund										
Investments	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
Construction fund										
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
Unemployment fund										
Investments	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-
Equipment maintenance and replacement fund										
Cash and cash equivalents	<u>1,015,892</u>	<u>1,015,892</u>	-	-	-	-	-	-	-	<u>2,031,784</u>
Subtotal	<u>1,015,892</u>	<u>1,015,892</u>	-	-	-	-	-	-	-	<u>2,031,784</u>
Total restricted assets	<u>1,015,892</u>	<u>1,015,892</u>	-	-	-	-	-	-	-	<u>2,031,784</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF NET POSITION (continued)  
June 30, 2018**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, (continued)**

	<u>Hopkinsville</u>			<u>Pembroke</u>		<u>Crofton</u>		<u>Oak Grove</u>	<u>Eliminations</u>	<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Gas</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Sewer</u>		
Property, plant and equipment										
Property and plant	\$ 88,181,112	\$ 76,894,090	\$ -	\$ 752,720	\$ 282,600	\$ 844,987	\$ 1,260,673	\$ 10,087,446	\$ -	\$ 178,303,628
General plant	1,307,219	1,659,924	-	5,667	-	10,000	-	447,105	-	3,429,915
Unclassified plant	2,357,753	2,532,374	3,849,289	-	-	-	-	-	-	8,739,416
	91,846,084	81,086,388	3,849,289	758,387	282,600	854,987	1,260,673	10,534,551	-	190,472,959
Less accumulated depreciation	32,400,689	41,794,581	-	274,230	208,292	325,604	869,306	2,555,398	-	78,428,100
Net property, plant and equipment	59,445,395	39,291,807	3,849,289	484,157	74,308	529,383	391,367	7,979,153	-	112,044,859
Notes receivable										
Receivable - CCBE	-	31,485	-	-	-	-	-	-	-	31,485
Receivable - Hopk Ind. Fdn.	-	145,370	-	-	-	-	-	-	-	145,370
Other receivables										
Receivable - US Army Corps of Engineers	2,236,942	-	2,174,368	-	-	-	-	-	-	4,411,310
Receivable - Crofton division	57,000	-	-	-	-	-	-	-	(57,000)	-
Total notes and other receivables	2,293,942	176,855	2,174,368	-	-	-	-	-	(57,000)	4,588,165
Deferred outflows of resources										
Deferred outflows from pension	1,466,103	1,511,308	-	-	-	-	-	-	-	2,977,411
Deferred outflows from OPEB	369,305	380,692	-	-	-	-	-	-	-	749,997
Deferred refunding costs	474,878	-	-	-	-	-	-	16,473	-	491,351
Total deferred outflows of resources	2,310,286	1,892,000	-	-	-	-	-	16,473	-	4,218,759
Total assets and deferred outflows of resources	\$ 69,063,250	\$ 45,367,953	\$ 8,099,533	\$ 625,230	\$ 214,888	\$ 619,334	\$ 470,838	\$ 8,057,105	\$ (57,000)	\$ 132,461,131

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF NET POSITION (continued)  
June 30, 2018**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
<b>Current liabilities</b>										
Current portion of long-term debt	\$ 1,194,268	\$ 777,982	\$ -	\$ -	\$ -	\$ 16,799	\$ 16,799	\$ 388,357	\$ -	\$ 2,394,205
Payable to City of Hopkinsville, current portion	1,470,000	120,000	65,000	-	-	-	-	-	-	1,655,000
Customer deposits	112,837	-	-	-	-	-	-	-	-	112,837
Accrued interest	176,099	40,094	147,389	-	-	13	13	25,979	-	389,587
Construction retainage payable	112,665	20,000	-	-	-	-	-	-	-	132,665
Accounts payable	131,136	121,514	-	726	-	887	-	-	-	254,263
Accounts payable - restricted	-	-	-	-	-	-	-	-	-	-
Construction contracts payable	-	-	-	-	-	-	-	-	-	-
Accrued salaries	20,294	23,556	-	-	-	-	-	-	-	43,850
Accrued compensated absences	84,677	100,985	-	-	-	-	-	-	-	185,662
<b>Total current liabilities</b>	<b>3,301,976</b>	<b>1,204,131</b>	<b>212,389</b>	<b>726</b>	<b>-</b>	<b>17,699</b>	<b>16,812</b>	<b>414,336</b>	<b>-</b>	<b>5,168,069</b>
<b>Long-term debt</b>										
Revenue bonds payable, net of current portion	2,167,886	-	-	-	-	-	-	185,000	-	2,352,886
KIA loans payable, net of current portion	13,750,837	19,940,888	-	-	-	8,425	8,425	6,197,968	-	39,906,543
Revenue leases - Planters, net of current portion	1,387,403	-	2,040,196	-	-	-	-	-	-	3,427,599
Payable to City of Hopkinsville, net of current portion	14,997,837	1,157,240	1,641,849	-	-	-	-	-	-	17,796,926
Net pension liability	3,920,828	4,041,719	-	-	-	-	-	-	-	7,962,547
OPEB liability	1,346,624	1,388,145	-	-	-	-	-	-	-	2,734,769
Crofton division-note payable	-	-	-	-	-	57,000	-	-	(57,000)	-
Compensated absences, net of current portion	115,609	125,118	-	-	-	-	-	-	-	240,727
<b>Total long-term debt</b>	<b>37,687,024</b>	<b>26,653,110</b>	<b>3,682,045</b>	<b>-</b>	<b>-</b>	<b>65,425</b>	<b>8,425</b>	<b>6,382,968</b>	<b>(57,000)</b>	<b>74,421,997</b>
<b>Total liabilities</b>	<b>40,989,000</b>	<b>27,857,241</b>	<b>3,894,434</b>	<b>726</b>	<b>-</b>	<b>83,124</b>	<b>25,237</b>	<b>6,797,304</b>	<b>(57,000)</b>	<b>79,590,066</b>
<b>Deferred inflows of resources</b>										
Deferred revenue - USACE	4,743,460	-	2,174,368	-	-	-	-	-	-	6,917,828
Deferred inflows from pension	361,557	372,704	-	-	-	-	-	-	-	734,261
Deferred inflows from OPEB	70,506	72,679	-	-	-	-	-	-	-	143,185
<b>Total deferred inflows of resources</b>	<b>5,175,523</b>	<b>445,383</b>	<b>2,174,368</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,795,274</b>
<b>Net Position</b>										
Net investment in capital assets (deficit)	24,839,377	17,275,697	102,244	484,157	74,308	504,159	366,143	1,224,301	-	44,870,386
Restricted										
Debt reserves	1,015,892	1,015,892	-	-	-	-	-	-	-	2,031,784
Unrestricted (deficit)	(2,956,542)	(1,226,260)	1,928,487	140,347	140,580	32,051	79,458	35,500	-	(1,826,379)
<b>Total net position</b>	<b>22,898,727</b>	<b>17,065,329</b>	<b>2,030,731</b>	<b>624,504</b>	<b>214,888</b>	<b>536,210</b>	<b>445,601</b>	<b>1,259,801</b>	<b>-</b>	<b>45,075,791</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 69,063,250</b>	<b>\$ 45,367,953</b>	<b>\$ 8,099,533</b>	<b>\$ 625,230</b>	<b>\$ 214,888</b>	<b>\$ 619,334</b>	<b>\$ 470,838</b>	<b>\$ 8,057,105</b>	<b>\$ (57,000)</b>	<b>\$ 132,461,131</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
For the year ended June 30, 2018**

	Hopkinsville			Pembroke		Crofton		Oak Grove	Eliminations	Totals
	Water	Sewer	Gas	Water	Sewer	Water	Sewer	Sewer		
Operating revenues	\$ 8,705,069	\$ 5,903,362	\$ -	\$ 111,269	\$ 114,438	\$ 199,994	\$ 154,920	\$ 1,608,157	\$ -	\$ 16,797,209
Operating expenses										
Water source of supply	365,469	-	-	-	-	-	-	-	-	365,469
Water purification	1,428,674	-	-	369	-	19,287	-	-	-	1,448,330
Water distribution	504,657	-	-	44,427	-	68,795	-	-	-	617,879
Sewerage plant	-	1,658,882	-	-	8,982	-	11,957	955,894	-	2,635,715
Sewerage mains and laterals	-	457,527	-	-	49,194	-	85,820	558	-	593,099
Administrative and general	2,138,705	2,152,429	-	842	921	1,066	407	-	-	4,294,370
Technical services	137,662	91,656	-	-	-	-	-	-	-	229,318
Depreciation	1,992,644	2,016,660	-	31,769	9,235	35,156	15,159	376,446	-	4,477,069
Total operating expenses	<u>6,567,811</u>	<u>6,377,154</u>	<u>-</u>	<u>77,407</u>	<u>68,332</u>	<u>124,304</u>	<u>113,343</u>	<u>1,332,898</u>	<u>-</u>	<u>14,661,249</u>
Operating income	<u>2,137,258</u>	<u>(473,792)</u>	<u>-</u>	<u>33,862</u>	<u>46,106</u>	<u>75,690</u>	<u>41,577</u>	<u>275,259</u>	<u>-</u>	<u>2,135,960</u>
Nonoperating revenues (expenses)										
Interest revenue	109,475	61,396	24,503	-	-	-	-	-	-	195,374
Gain (loss) on sale of fixed assets	(666,312)	(17,935)	-	(8,806)	(271)	(15,123)	-	(24,993)	-	(733,440)
Amortization of deferred refunding costs	(63,317)	-	-	-	-	-	-	(1,432)	-	(64,749)
Amortization of debt discounts and premiums	160,938	-	351	-	-	-	-	1,064	-	162,353
Interest expense	(1,126,964)	(440,351)	(76,013)	-	-	(218)	(218)	(194,777)	-	(1,838,541)
Total nonoperating revenues (expenses)	<u>(1,586,180)</u>	<u>(396,890)</u>	<u>(51,159)</u>	<u>(8,806)</u>	<u>(271)</u>	<u>(15,341)</u>	<u>(218)</u>	<u>(220,138)</u>	<u>-</u>	<u>(2,279,003)</u>
Income (loss) before contributions and transfers	551,078	(870,682)	(51,159)	25,056	45,835	60,349	41,359	55,121	-	(143,043)
Capital contributions										
Capital assets provided by developers	61,777	-	-	-	-	-	-	-	-	61,777
Grant income	-	109,440	-	-	-	-	-	-	-	109,440
Transfers (to) from										
Operating transfers in (out)	(2,551,791)	2,086,948	524,286	(31,220)	(26,944)	(9,641)	18,661	(10,299)	-	-
Change in net position	(1,938,936)	1,325,706	473,127	(6,164)	18,891	50,708	60,020	44,822	-	28,174
Net position - beginning of year, as restated	24,837,663	15,739,623	1,557,604	630,668	195,997	485,502	385,581	1,214,979	-	45,047,617
Net position - end of year	<u>\$ 22,898,727</u>	<u>\$ 17,065,329</u>	<u>\$ 2,030,731</u>	<u>\$ 624,504</u>	<u>\$ 214,888</u>	<u>\$ 536,210</u>	<u>\$ 445,601</u>	<u>\$ 1,259,801</u>	<u>\$ -</u>	<u>\$ 45,075,791</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT  
For the year ended June 30, 2018**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION			Depreciated values June 30, 2018		
	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Balance June 30, 2017	Additions		Retirements	Balance June 30, 2018
<b>WATER:</b>									
Land	\$ 1,230,391	\$ -	\$ -	\$ 1,230,391	\$ -	\$ -	\$ -	\$ -	\$ 1,230,391
Structures	3,144,837	14,215	5,639	3,153,413	1,802,398	61,155	3,919	1,859,634	1,293,779
Elevated tanks	3,684,838	-	1,152,307	2,532,531	2,472,339	110,805	569,081	2,014,063	518,468
Transmission mains	196,596	-	-	196,596	196,596	-	-	196,596	-
Distribution mains	18,174,147	6,350,339	7,712	24,516,774	8,564,217	441,144	7,712	8,997,649	15,519,125
Services	3,149,959	56,711	-	3,206,670	1,624,370	63,305	-	1,687,675	1,518,995
Meters and installation	2,966,140	51,519	1,240,921	1,776,738	2,503,903	74,113	1,240,921	1,337,095	439,643
Hydrants	1,036,819	27,346	-	1,064,165	549,580	17,394	-	566,974	497,191
Purification structures	17,742,463	139,120	186,725	17,694,858	5,739,434	713,440	86,515	6,366,359	11,328,499
Purification equipment	4,703,711	23,679	8,813	4,718,577	4,546,079	29,543	7,365	4,568,257	150,320
Electric pumping equipment	427,334	-	190,833	236,501	391,148	13,439	185,593	218,994	17,507
Quarry - raw water supply	29,451,606	-	-	29,451,606	3,983,185	427,904	-	4,411,089	25,040,517
<b>Total water plant</b>	<b>85,908,841</b>	<b>6,662,929</b>	<b>2,792,950</b>	<b>89,778,820</b>	<b>32,373,249</b>	<b>1,952,242</b>	<b>2,101,106</b>	<b>32,224,385</b>	<b>57,554,435</b>
<b>General</b>									
Transportation equipment	496,227	-	-	496,227	157,023	46,849	-	203,872	292,355
Tractors & backhoes	199,518	-	-	199,518	75,032	20,040	-	95,072	104,446
General equipment	382,814	9,153	-	391,967	286,824	15,432	-	302,256	89,711
Office furniture and fixtures	78,079	7,208	6,113	79,174	40,180	6,904	3,219	43,865	35,309
Two-way radio equipment	3,370	-	-	3,370	955	674	-	1,629	1,741
Computer equipment	152,306	323	-	152,629	112,016	17,428	-	129,444	23,185
<b>Total general plant</b>	<b>1,312,314</b>	<b>16,684</b>	<b>6,113</b>	<b>1,322,885</b>	<b>672,030</b>	<b>107,327</b>	<b>3,219</b>	<b>776,138</b>	<b>546,747</b>
<b>Unclassified plant</b>									
Construction in progress	6,214,889	2,551,836	6,408,972	2,357,753	-	-	-	-	2,357,753
<b>Total water plant</b>	<b>\$ 93,436,044</b>	<b>\$ 9,231,449</b>	<b>\$ 9,208,035</b>	<b>\$ 93,459,458</b>	<b>\$ 33,045,279</b>	<b>\$ 2,059,569</b>	<b>\$2,104,325</b>	<b>\$ 33,000,523</b>	<b>\$ 60,458,935</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT (continued)  
For the year ended June 30, 2018**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2018	
	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Balance June 30, 2017	Additions	Retirements		Balance June 30, 2018
<b>SEWERAGE:</b>									
Land	\$ 341,449	\$ -	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	3,985,062	16,802	7,816	3,994,048	1,569,539	138,810	7,566	1,700,783	2,293,265
Wastewater treatment plants									
Northside	8,421,543	-	109,294	8,312,249	7,179,836	209,920	24,616	7,365,140	947,109
Hammond-Wood	11,796,686	169,086	29,925	11,935,847	9,124,332	350,009	4,091	9,470,250	2,465,597
Machinery and equipment	2,653,881	-	44,216	2,609,665	2,530,966	16,449	10,971	2,536,444	73,221
Pumping stations	16,320,607	63,628	485,964	15,898,271	4,052,505	681,475	468,222	4,265,758	11,632,513
Mains and laterals	45,230,276	203,354	350	45,433,280	17,867,500	865,447	79	18,732,868	26,700,412
<b>Total sewerage plant</b>	<b>88,749,504</b>	<b>452,870</b>	<b>677,565</b>	<b>88,524,809</b>	<b>42,324,678</b>	<b>2,262,110</b>	<b>515,545</b>	<b>44,071,243</b>	<b>44,453,566</b>
<b>General</b>									
Transportation equipment	846,693	-	-	846,693	334,300	77,927	-	412,227	434,466
Tractors & backhoes	188,320	21,003	-	209,323	72,524	21,141	-	93,665	115,658
General equipment	925,642	22,609	106,928	841,323	693,175	33,828	33,360	693,643	147,680
Office furniture and fixtures	82,557	8,197	-	90,754	48,833	8,171	-	57,004	33,750
Two-way radio equipment	4,275	-	-	4,275	1,091	854	-	1,945	2,330
Computer equipment	114,338	323	-	114,661	84,381	13,469	-	97,850	16,811
<b>Total general plant</b>	<b>2,161,825</b>	<b>52,132</b>	<b>106,928</b>	<b>2,107,029</b>	<b>1,234,304</b>	<b>155,390</b>	<b>33,360</b>	<b>1,356,334</b>	<b>750,695</b>
<b>Unclassified plant</b>									
Construction in progress	328,553	2,379,981	176,160	2,532,374	-	-	-	-	2,532,374
<b>Total sewer plant</b>	<b>\$ 91,239,882</b>	<b>\$ 2,884,983</b>	<b>\$ 960,653</b>	<b>\$ 93,164,212</b>	<b>\$ 43,558,982</b>	<b>\$ 2,417,500</b>	<b>\$ 548,905</b>	<b>\$ 45,427,577</b>	<b>\$ 47,736,635</b>
<b>NATURAL GAS:</b>									
<b>Unclassified</b>									
Construction in progress	\$ 3,324,819	\$ 524,470	\$ -	\$ 3,849,289	\$ -	\$ -	\$ -	\$ -	\$ 3,849,289
<b>Total natural gas</b>	<b>\$ 3,324,819</b>	<b>\$ 524,470</b>	<b>\$ -</b>	<b>\$ 3,849,289</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,849,289</b>



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF SINKING FUND REQUIREMENTS  
June 30, 2018**

<u>Bonds Due Fiscal Year</u>	<u>1998</u>	<u>2010B</u>	<u>2013B</u>	<u>2014B</u>	<u>2014C</u>	<u>2015A</u>	<u>Total Debt Service</u>
2019	\$ 98,230	\$ 262,453	\$ 255,387	\$ 117,381	\$ 153,745	\$ 1,788,100	\$ 2,675,296
2020	99,065	263,776	251,037	116,406	152,425	1,789,000	2,671,709
2021	99,655	262,884	251,612	115,106	155,025	1,787,700	2,671,982
2022	-	262,929	252,037	118,419	152,525	1,789,100	2,575,010
2023	-	262,659	252,112	116,494	153,775	1,788,100	2,573,140
2024	-	260,574	251,831	114,394	149,875	1,784,700	2,561,374
2025	-	258,737	251,175	117,219	145,975	1,788,700	2,561,806
2026	-	259,127	255,050	114,969	107,075	1,785,000	2,521,221
2027	-	261,139	253,477	117,644	89,225	-	721,485
2028	-	261,540	251,540	115,244	111,825	-	740,149
2029	-	261,280	254,025	117,716	108,413	-	741,434
2030	-	130,500	255,825	115,060	-	-	501,385
2031	-	-	251,787	117,325	-	-	369,112
2032	-	-	251,887	119,256	-	-	371,143
2033	-	-	251,537	115,931	-	-	367,468
2034	-	-	255,630	117,518	-	-	373,148
2035	-	-	-	118,865	-	-	118,865
2036	-	-	-	115,059	-	-	115,059
2037	-	-	-	116,162	-	-	116,162
2038	-	-	-	117,088	-	-	117,088
	<u>\$ 296,950</u>	<u>\$ 3,007,598</u>	<u>\$ 4,045,949</u>	<u>\$ 2,333,256</u>	<u>\$ 1,479,883</u>	<u>\$ 14,300,400</u>	<u>\$ 25,464,036</u>

The sinking fund reserve requirement is the maximum total debt service on bonds due in future years. Therefore, the sinking fund reserve requirement as of June 30, 2018, is \$2,675,296. The HWEA is setting aside funds to meet this requirement.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**  
**WATER, SEWER, AND GAS DEPARTMENTS**  
**A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**  
**SCHEDULES OF OPERATING EXPENSES**  
**For the years ended June 30, 2018 and 2017**

	<u>2018</u>		<u>As Restated 2017</u>	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Water Source of Supply</b>				
Supplies	\$ 411	0.00%	\$ 829	0.01%
Utilities	358,891	2.14%	323,836	2.07%
Grounds and maintenance	6,167	0.04%	3,568	0.02%
Total water source of supply	<u>365,469</u>	<u>2.18%</u>	<u>328,233</u>	<u>2.10%</u>
<b>Water Purification</b>				
Labor	504,326	3.00%	507,136	3.24%
Employee benefits	163,705	0.97%	-	0.00%
Chemicals	229,883	1.37%	192,473	1.23%
Maintenance to structures	1,423	0.01%	3,299	0.02%
Maintenance to equipment	74,196	0.44%	18,266	0.12%
Supplies	14,598	0.09%	11,888	0.08%
Maintenance to reservoirs and tanks	4,907	0.03%	15,512	0.10%
Utilities	331,635	1.97%	309,655	1.98%
Training and education	4,809	0.03%	3,333	0.02%
Laboratory work	32,815	0.20%	27,984	0.18%
Laboratory supplies and expense	27,820	0.17%	22,098	0.14%
Emergency generators	17,594	0.10%	10,637	0.07%
Grounds and maintenance	11,140	0.07%	7,782	0.05%
Professional services	1,035	0.01%	-	0.00%
Transportation expense	27,568	0.16%	25,883	0.17%
Small tools	876	0.01%	1,843	0.01%
Total water purification	<u>1,448,330</u>	<u>8.62%</u>	<u>1,157,789</u>	<u>7.41%</u>
<b>Water Distribution</b>				
Labor	311,799	1.86%	369,531	2.36%
Employee benefits	115,359	0.69%	-	0.00%
Supplies	105,076	0.63%	112,563	0.72%
Repairs to distribution mains	33,904	0.20%	30,473	0.19%
Repairs to fire hydrants	346	0.00%	851	0.01%
Repairs to equipment	7,889	0.05%	4,160	0.03%
Transportation expense	27,859	0.17%	21,283	0.14%
Grounds and maintenance	10,192	0.06%	10,169	0.07%
Utilities	2,696	0.02%	2,052	0.01%
Training, education and licenses	1,020	0.01%	973	0.01%
Small tools	1,739	0.01%	3,485	0.02%
Total water distribution	<u>617,879</u>	<u>3.68%</u>	<u>555,540</u>	<u>3.55%</u>
Subtotal carried forward	<u>\$ 2,431,678</u>	<u>14.48%</u>	<u>\$ 2,041,562</u>	<u>13.06%</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**  
**WATER, SEWER, AND GAS DEPARTMENTS**  
**A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY**  
**SCHEDULES OF OPERATING EXPENSES (continued)**  
**For the years ended June 30, 2018 and 2017**

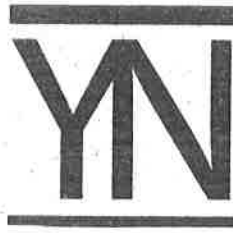
	<u>2018</u>		<u>As Restated 2017</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	<u>\$ 2,431,678</u>	<u>14.48%</u>	<u>\$ 2,041,562</u>	<u>13.06%</u>
<b>Water Technical Services</b>				
Labor	95,924	0.57%	95,653	0.61%
Employee benefits	34,134	0.20%	-	0.00%
Supplies	5,137	0.03%	5,458	0.03%
Training, education and licenses	592	0.00%	99	0.00%
Transportation expense	<u>1,875</u>	<u>0.01%</u>	<u>2,387</u>	<u>0.02%</u>
Total water technical services	<u>137,662</u>	<u>0.82%</u>	<u>103,597</u>	<u>0.66%</u>
<b>Water Administrative and General</b>				
Office salaries	365,834	2.18%	321,680	2.06%
Customer service salaries	224,997	1.34%	217,359	1.39%
Employee benefits	1,028,313	6.12%	1,916,048	12.26%
Office supplies	31,085	0.19%	36,114	0.23%
Postage	16,159	0.10%	16,370	0.10%
Telephone	25,601	0.15%	23,975	0.15%
Insurance and bonds	164,196	0.98%	156,507	1.00%
Professional services	93,337	0.56%	86,068	0.55%
Safety program and drug screening	13,537	0.08%	10,847	0.07%
Office building maintenance	11,002	0.07%	10,910	0.07%
Bad debts, net	59,726	0.36%	55,170	0.35%
Training, education and licenses	4,421	0.03%	1,925	0.01%
Transportation expense	12,154	0.07%	10,601	0.07%
REZ and CCWD rebate payments	2,222	0.01%	13,045	0.08%
Utilities	25,226	0.15%	23,152	0.15%
Meetings and events	8,496	0.05%	6,531	0.04%
Advertising, donations, and memberships	51,470	0.31%	47,208	0.30%
Miscellaneous	<u>2,837</u>	<u>0.02%</u>	<u>6,237</u>	<u>0.04%</u>
Total water administrative and general	<u>2,140,613</u>	<u>12.74%</u>	<u>2,959,747</u>	<u>18.93%</u>
Total water operating expense other than depreciation	<u>\$ 4,709,953</u>	<u>28.04%</u>	<u>\$ 5,104,906</u>	<u>32.65%</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULES OF OPERATING EXPENSES (continued)  
For the years ended June 30, 2018 and 2017**

	<u>2018</u>		<u>As Restated 2017</u>	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Wastewater Treatment Plant</b>				
Labor	\$ 719,296	4.28%	\$ 696,861	4.46%
Employee benefits	277,666	1.65%	-	0.00%
Chemicals and materials	106,366	0.63%	140,041	0.90%
Supplies and tools	20,974	0.12%	24,674	0.16%
Lights, power, water, and fuel oil	608,517	3.62%	590,475	3.78%
Transportation expense	30,494	0.18%	28,274	0.18%
Repairs - machinery and equipment	123,241	0.73%	141,505	0.91%
Grounds and maintenance	6,709	0.04%	10,576	0.07%
Maintenance of pump stations	190,362	1.13%	187,287	1.20%
Emergency generators	19,971	0.12%	-	0.00%
Laboratory work	32,632	0.19%	27,817	0.18%
Laboratory supplies and expense	23,008	0.14%	23,581	0.15%
Sludge disposal	432,598	2.58%	353,773	2.26%
Training, education and licenses	16,996	0.10%	1,363	0.01%
Professional services	3,149	0.02%	600	0.00%
Billing and collection expense	23,736	0.14%	23,614	0.15%
	<u>2,635,715</u>	<u>15.69%</u>	<u>2,250,441</u>	<u>14.39%</u>
<b>Wastewater Mains and Laterals</b>				
Labor	276,618	1.65%	251,086	1.61%
Employee benefits	112,128	0.67%	-	0.00%
Supplies and tools	133,643	0.80%	92,290	0.59%
Repairs - mains and laterals	5,252	0.03%	6,337	0.04%
Repairs - truck and sewerage equipment	11,604	0.07%	9,151	0.06%
Transportation expense	27,858	0.17%	21,283	0.14%
Utilities	2,696	0.02%	2,052	0.01%
Grounds and maintenance	10,192	0.06%	10,123	0.06%
Training, education and licenses	755	0.00%	872	0.01%
Professional services	-	0.00%	600	0.00%
Developer rebates	12,353	0.07%	19,466	0.12%
	<u>593,099</u>	<u>3.53%</u>	<u>413,260</u>	<u>2.64%</u>
<b>Wastewater Technical Services</b>				
Labor	84,095	0.50%	73,537	0.47%
Supplies	5,216	0.03%	5,459	0.03%
Training, education and licenses	592	0.00%	99	0.00%
Transportation expense	1,753	0.01%	2,387	0.02%
	<u>91,656</u>	<u>0.55%</u>	<u>81,482</u>	<u>0.52%</u>
Total wastewater technical services	<u>91,656</u>	<u>0.55%</u>	<u>81,482</u>	<u>0.52%</u>
Subtotal carried forward	<u>\$ 3,320,470</u>	<u>19.77%</u>	<u>\$ 2,745,183</u>	<u>17.56%</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULES OF OPERATING EXPENSES (continued)  
For the years ended June 30, 2018 and 2017**

	<u>2018</u>		<u>As Restated 2017</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	\$ 3,320,470	19.77%	\$ 2,745,183	17.56%
<b>Sewerage Administrative and General</b>				
Office salaries	356,629	2.12%	320,214	2.05%
Customer service salaries	223,467	1.33%	216,261	1.38%
Employee benefits	1,072,885	6.39%	1,874,598	11.99%
Office supplies	31,006	0.18%	35,175	0.22%
Postage	16,159	0.10%	16,370	0.10%
Telephone	25,516	0.15%	23,975	0.15%
Insurance and bonds	164,196	0.98%	156,507	1.00%
Professional services	93,337	0.56%	85,610	0.55%
Office building maintenance	10,992	0.07%	10,547	0.07%
Bad debts, net	36,648	0.22%	32,425	0.21%
Training, education and licenses	4,398	0.03%	2,124	0.01%
Safety program and drug screening	16,058	0.10%	13,283	0.08%
Transportation expense	12,155	0.07%	10,603	0.07%
Rez rebate payments	1,375	0.01%	12,250	0.08%
Utilities	25,944	0.15%	24,066	0.15%
Meetings and events	8,530	0.05%	6,640	0.04%
Advertising, donations, and memberships	50,470	0.30%	47,105	0.30%
Miscellaneous	3,992	0.02%	5,772	0.04%
Total sewer administrative and general	<u>2,153,757</u>	<u>12.82%</u>	<u>2,893,525</u>	<u>18.51%</u>
Total sewerage operating expense other than depreciation	<u>\$5,474,227</u>	<u>32.59%</u>	<u>\$5,638,708</u>	<u>36.07%</u>



**YORK, NEEL & ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated December 11, 2018.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Youk, Neel & Associates, LLP*

Hopkinsville, Kentucky  
December 11, 2018