

# **HOPKINSVILLE WATER ENVIRONMENT AUTHORITY**

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

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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

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

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2019**

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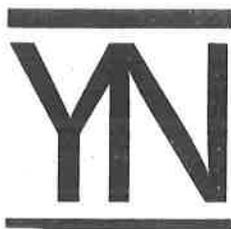
**Dan Kemp**

**PRESIDENT & CEO**

**Derrick Watson**

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

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Exhibit A – Statements of Net Position	11
Exhibit B – Statements of Revenues, Expenses and Changes in Net Position	13
Exhibit C – Statements of Cash Flows	14
Notes to Financial Statements	16
Required Supplementary Information:	
County Employees Retirement System (CERS):	
Schedule of HWEA's Proportionate Share of the Net Pension Liability	56
Schedule of HWEA's Pension Contributions	57
Schedule of HWEA's Proportionate Share of the Net OPEB Liability	58
Schedule of HWEA's OPEB Contributions	59
Supporting Schedules:	
1 - Combining Schedule of Net Position	60
2 - Combining Schedule of Revenues, Expenses and Changes in Net Position	63
3 - Schedule of Property, Plant and Equipment	64
4 - Schedule of Sinking Fund Requirements	66
5 - Schedules of Operating Expenses	67
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 <i>Government Auditing Standards</i>	71



**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, 2019 and 2018, 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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10, 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 November 18, 2019, 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  
November 18, 2019

**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, 2019 and 2018. 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, 2019, HWEA's total assets and deferred outflows of resources decreased \$7.15 million, while total liabilities and deferred inflows of resources decreased \$8.58 million, resulting in total net position increasing approximately \$1.43 million 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 \$2,311,977 and \$2,734,769 at June 30, 2019 and 2018, 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 in order to finance various construction projects and then paying down that, and other, debt.
- ❑ HWEA's operating revenues increased 5.96% during the year ended June 30, 2019, while operating expenses increased 4.36%. The 14% sewer rate increase that HWEA implemented in July 2018 helps explain the increase in operating revenues.
- ❑ The most significant change in nonoperating revenues and expenses came 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, 2019 and 2018, 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.
- ❑ Another change to nonoperating revenues came from the recording of other income of \$159,220 pertaining to the termination of the Ft. Campbell 8" Natural Gas Project by the U.S. Army Corps of Engineers (USACE), which is described more fully in other sections of this Management's Discussion and Analysis as well as in Note 3 to the financial statements.
- ❑ 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. No grant income was received during the year ended June 30, 2019.

**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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**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, 2019 and 2018, 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 2019?” 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.

**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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**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 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$15,305	\$16,197	\$ (892)	(5.51)%
Capital Assets	106,828	112,045	(5,217)	(4.66)%
Deferred Outflows of Resources	<u>3,176</u>	<u>4,219</u>	<u>(1,043)</u>	<u>(24.72)%</u>
Total Assets and Deferred Outflows of Resources	<u>125,309</u>	<u>132,461</u>	<u>(7,152)</u>	<u>(5.40)%</u>
Long-term Debt Outstanding	72,139	78,657	(6,518)	(8.29)%
Other Liabilities	754	933	(179)	(19.19)%
Deferred Inflows of Resources	<u>5,909</u>	<u>7,795</u>	<u>(1,886)</u>	<u>(24.20)%</u>
Total Liabilities and Deferred Inflows of Resources	<u>78,802</u>	<u>87,385</u>	<u>(8,583)</u>	<u>(9.82)%</u>
Net Investment in				
Capital Assets	45,808	44,870	938	2.09%
Restricted	2,082	2,032	50	2.46%
Unrestricted	<u>(1,383)</u>	<u>(1,826)</u>	<u>443</u>	<u>24.26%</u>
Total Net Position	<u>\$46,507</u>	<u>\$45,076</u>	<u>\$ 1,431</u>	<u>3.17%</u>

The decrease in capital assets is mainly due to the termination of the Ft. Campbell 8" Natural Gas Project at the request of USACE, which resulted in writing off approximately \$2.24 million in construction costs that were included in construction in progress. As a result of this termination, USACE agreed to pay HWEA \$2.4 million to reimburse these construction costs as well as interest and other costs incurred on the project. A receivable for \$2.4 million was recorded as of June 30, 2019, which was subsequently collected. Other decreases to capital assets are due to an increase in depreciation as a result of placing into service various water, sewer, and gas projects in recent years.

Draws on various loans from KIA toward construction projects to fund certain water and sewer projects, and the subsequent repayment of that and other debt help to explain the net change in long-term debt outstanding. Other factors affecting 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.

**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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**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 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	\$ 17,799	\$ 16,797	\$ 1,002	5.97%
Nonoperating Revenues	<u>677</u>	<u>358</u>	<u>319</u>	<u>89.11%</u>
Total Revenues	<u>18,476</u>	<u>17,155</u>	<u>1,321</u>	<u>7.70%</u>
Depreciation Expense	4,612	4,477	135	3.02%
Other Operating Expenses	10,689	10,184	505	4.96%
Interest Expense	1,728	1,839	(111)	(6.04)%
Other Nonoperating Expenses	<u>74</u>	<u>798</u>	<u>(724)</u>	<u>(90.73)%</u>
Total Expenses	<u>17,103</u>	<u>17,298</u>	<u>(195)</u>	<u>(1.13)%</u>
Income/(Loss) before Contributions and Transfers	1,373	(143)	1,516	1,060.14%
Capital Contributions	<u>58</u>	<u>171</u>	<u>(113)</u>	<u>(66.08)%</u>
Change in Net Position	<u>1,431</u>	<u>28</u>	<u>1,403</u>	<u>5,010.71%</u>
Beginning Net Position	<u>45,076</u>	<u>45,048</u>	<u>28</u>	<u>0.06%</u>
Ending Net Position	<u>\$ 46,507</u>	<u>\$ 45,076</u>	<u>\$ 1,431</u>	<u>3.17%</u>

As can be seen from the table above, operating revenues increased \$1.0 million, which is a result of the 14% sewer rate increase that was implemented in July 2018. Nonoperating revenues increased \$319 thousand because of additional interest income due to slightly higher interest rates, higher average account balances during the year, and interest from USACE on the repayment of the water line revenue lease. The main reason for the \$505 thousand increase in other operating expenses is because of higher sewerage plant expenses. Specifically, employee benefits increased due to higher employer contribution rates to the CERS retirement plan; maintenance on pump stations was higher; and professional expenses increased due to expensing engineering services previously incurred on a construction project that HWEA no longer has plans to complete. Other nonoperating expenses decreased \$724 thousand because of disposing of various assets at a loss during the previous fiscal year and not having as many such disposals during the current fiscal 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 2019  
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues	\$ 18,337	\$ 17,799	\$ (538)
Nonoperating Revenues	189	677	488
Operating Expenses and Depreciation	(14,993)	(15,301)	(308)
Nonoperating Expenses	<u>(1,731)</u>	<u>(1,802)</u>	<u>(71)</u>
Income (Loss) before Contributions and Transfers	<u>\$ 1,802</u>	<u>\$ 1,373</u>	<u>\$ (429)</u>

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**CAPITAL ASSETS**

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At June 30, 2019, HWEA had approximately \$190 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2019 and 2018, 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. Capital assets for the year ended June 30, 2019 were also affected by the termination of the Ft. Campbell 8" natural gas project by USACE as described earlier.

Construction in progress at June 30, 2019, consisted of work done on various water, sewer, and gas projects including the installation of natural gas lines and renovation/expansion of the Hammond-Wood wastewater treatment plant. Certain projects were also completed and placed into service during the year ended June 30, 2019, with the largest being the rehabilitation of several water tanks. 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 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Water	\$ 94,100,615	\$ 93,459,458	\$ 641,157	0.69 %
Sewerage	93,872,496	93,164,212	708,284	0.76 %
Gas	<u>1,827,146</u>	<u>3,849,289</u>	<u>(2,022,143)</u>	<u>(52.53)%</u>
	189,800,257	190,472,959	(672,702)	0.35 %
Less: Accumulated Depreciation	<u>(82,971,950)</u>	<u>(78,428,100)</u>	<u>(4,543,850)</u>	<u>(5.79)%</u>
Net Property, Plant and Equipment	<u>\$106,828,307</u>	<u>\$112,044,859</u>	<u>\$(5,216,552)</u>	<u>(4.66)%</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, 2018. A series of subsequent sewer rate increases will become effective July 1, 2019 and 2020, with a possible additional increase on July 1, 2021. These future increases will impact water and sewer revenues of HWEA for the coming years.

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

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HWEA is also currently undergoing 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 complete, HWEA was 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, 2019, the natural gas portion of the project mentioned above was terminated by USACE, and USACE agreed to reimburse HWEA \$2.4 million of costs incurred on this project. As a result of the termination, HWEA cleared all construction costs from their books, paid off the line of credit associated with the project, and established a receivable for the amount to be reimbursed by USACE, all of which was collected subsequent to year end.

In September 2019, HWEA purged and commissioned the Phase I natural gas pipeline, which is composed of 6.3 miles of 12" natural gas main along the US41A corridor. HWEA also entered into an agreement with Clarksville Gas to supply the pipeline with natural gas. As a result, this natural gas main is now active and ready to provide service to customers along the corridor, which will impact natural gas revenues of HWEA for the coming years.

Also subsequent to the year ended June 30, 2019, HWEA's Board approved the following matters: 1) a change order totaling \$508,500 relating to construction administration and inspection on the Hammond Wood Waste Water Treatment Plant renovation/expansion; 2) a resolution to be signed by the Hopkinsville mayor relating to a \$7.5 million KIA loan for phase 8 of the Hammond Wood project; and 3) preparation and execution of a purchase contract in the amount of \$400,000 for the purchase of 1.16 acres at 1100 South Clay Street.

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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, 2019 and 2018**

	2019	2018
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 7,284,382	\$ 8,190,569
Customer receivables	1,113,356	1,094,691
Inventory	251,413	258,315
Prepaid insurance	31,410	33,626
Accrued interest on note receivable	323	363
Total current assets	8,680,884	9,577,564
<b>Restricted assets:</b>		
Cash and cash equivalents	2,081,443	2,031,784
Total restricted assets	2,081,443	2,031,784
<b>Property, plant and equipment:</b>		
Property, plant and equipment	186,483,203	181,733,543
Unclassified plant - construction in progress, engineering fees, and other costs	3,317,054	8,739,416
Accumulated depreciation	(82,971,950)	(78,428,100)
Net property, plant and equipment	106,828,307	112,044,859
<b>Notes receivable</b>	129,218	176,855
<b>Other receivables</b>	4,413,212	4,411,310
Total assets	122,133,064	128,242,372
<b>Deferred outflows of resources:</b>		
Deferred outflows from pension	2,113,918	2,977,411
Deferred outflows from OPEB	635,344	749,997
Deferred refunding costs	426,602	491,351
Total deferred outflows of resources	3,175,864	4,218,759
Total assets and deferred outflows of resources	\$ 125,308,928	\$ 132,461,131

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, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 2,906,492	\$ 2,394,205
Payable to City of Hopkinsville, current portion	1,710,000	1,655,000
Customer deposits	115,495	112,837
Accrued interest	231,331	389,587
Construction retainage payable	-	132,665
Accounts payable	356,490	254,263
Accrued salaries	50,757	43,850
Accrued compensated absences	224,715	185,662
Total current liabilities	5,595,280	5,168,069
<b>Long-term debt:</b>		
Revenue bonds payable, net of current portion	2,091,903	2,352,886
KIA loans payable, net of current portion	37,576,816	39,906,543
Revenue leases - Planters, net of current portion	1,237,570	3,427,599
Payable to City of Hopkinsville, net of current portion	15,924,055	17,796,926
Net pension liability	7,930,917	7,962,547
OPEB liability	2,311,977	2,734,769
Compensated absences, net of current portion	224,574	240,727
Total long-term debt	67,297,812	74,421,997
Total liabilities	72,893,092	79,590,066
<b>Deferred inflows of resources:</b>		
Deferred revenue - USACE	4,599,873	6,917,828
Deferred inflows from pension	779,300	734,261
Deferred inflows from OPEB	529,975	143,185
Total deferred inflows of resources	5,909,148	7,795,274
<b>Net position:</b>		
Net investment in capital assets	45,808,073	44,870,386
Restricted:		
Debt reserves	2,081,443	2,031,784
Unrestricted (deficit)	(1,382,828)	(1,826,379)
Total net position	46,506,688	45,075,791
Total liabilities, deferred inflows of resources, and net position	\$ 125,308,928	\$ 132,461,131

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating revenues:</b>		
Charges for services (net of allowances of \$77,360 and \$115,136 for 2019 and 2018, respectively)	\$ 17,575,757	\$ 16,416,335
Other operating revenue	<u>223,326</u>	<u>380,874</u>
Total operating revenues	<u>17,799,083</u>	<u>16,797,209</u>
<b>Operating expenses:</b>		
Water source of supply	394,168	365,469
Water purification	1,584,296	1,448,330
Water distribution	706,321	617,879
Sewerage plant	2,928,509	2,635,715
Sewerage mains and laterals	676,863	593,099
Administrative and general	4,000,540	4,294,370
Technical services	397,920	229,318
Depreciation	<u>4,612,155</u>	<u>4,477,069</u>
Total operating expenses	<u>15,300,772</u>	<u>14,661,249</u>
Operating income	<u>2,498,311</u>	<u>2,135,960</u>
<b>Nonoperating revenues (expenses):</b>		
Interest revenue	355,392	195,374
Gain (loss) on sale of fixed assets	(9,461)	(733,440)
Other income	159,220	-
Amortization of deferred refunding costs	(64,749)	(64,749)
Amortization of debt discounts and premiums	162,353	162,353
Interest expense	<u>(1,728,178)</u>	<u>(1,838,541)</u>
Total nonoperating revenues (expenses)	<u>(1,125,423)</u>	<u>(2,279,003)</u>
Income (loss) before contributions and transfers	1,372,888	(143,043)
<b>Capital contributions:</b>		
Capital assets contributed by developers	58,009	61,777
Grant income	<u>-</u>	<u>109,440</u>
Change in net position	1,430,897	28,174
<b>Net position - beginning of year, as restated</b>	<u>45,075,791</u>	<u>45,047,617</u>
<b>Net position - end of year</b>	<u>\$ 46,506,688</u>	<u>\$ 45,075,791</u>

See accompanying notes to financial statements.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER, SEWER, AND GAS DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 17,559,750	\$ 16,339,259
Paid to suppliers for goods and services	(4,356,267)	(4,232,904)
Paid to employees for services - including benefits	(5,235,645)	(4,657,859)
Other operating cash received	<u>79,739</u>	<u>261,218</u>
Net cash provided (used) by operating activities	<u>8,047,577</u>	<u>7,709,714</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(1,736,723)	(5,886,631)
Proceeds from disposition of fixed assets	16,223	2,955
Proceeds of capital debt	634,548	4,046,654
Principal paid on capital debt	(6,558,516)	(7,070,481)
Interest paid on capital debt	<u>(1,886,435)</u>	<u>(1,799,870)</u>
Net cash provided (used) by capital and related financing activities	<u>(9,530,903)</u>	<u>(10,707,373)</u>
<b>Cash flows from investing activities</b>		
Collection of notes receivable	47,637	47,078
Collection of other receivables	223,729	2,626,174
Interest earned on cash and cash equivalents	<u>355,432</u>	<u>195,415</u>
Net cash provided (used) by investing activities	<u>626,798</u>	<u>2,868,667</u>
Net increase (decrease) in cash and cash equivalents	(856,528)	(128,992)
Cash and cash equivalents at beginning of year (includes restricted assets of \$2,031,784 and \$2,001,799 for 2019 and 2018, respectively)	<u>10,222,353</u>	<u>10,351,345</u>
Cash and cash equivalents at end of year (includes restricted assets of \$2,081,443 and \$2,031,784 for 2019 and 2018, respectively)	<u>\$ 9,365,825</u>	<u>\$ 10,222,353</u>

Continued

**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, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
<b>Cash flows from operating activities</b>		
Operating income	\$ 2,498,311	\$ 2,135,960
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,612,155	4,477,069
Amortization of deferred revenue - USACE	(143,587)	(119,656)
Pension expense (GASBS No. 68)	876,903	1,138,256
OPEB expense (GASBS No. 75)	78,650	139,551
Changes in assets and liabilities		
(Increase)/decrease in customer receivables	(18,665)	(92,311)
(Increase)/decrease in inventory	6,902	(17,776)
(Increase)/decrease in prepaid expenses	2,216	(25,888)
Increase/(decrease) in accounts payable	102,227	27,765
Increase/(decrease) in customer deposits	2,658	15,235
Increase/(decrease) in accrued salaries and compensated absences	29,807	31,509
Net cash provided (used) by operating activities	\$ 8,047,577	\$ 7,709,714
<b><u>Noncash Capital and Related Financing and Investing Items</u></b>		
Capitalized interest	\$ -	\$ -
Capital assets contributed by developers	58,009	61,777
Termination of FTC natural gas project by USACE:		
Construction in progress	(2,240,780)	-
Note receivable - gas lease	(2,174,368)	-
Deferred revenue - gas lease	2,174,368	-

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

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

b. Basis of Accounting, continued

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

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

c. Separate Accounting

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

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

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

f. Prepaid Expenses

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

g. Restricted Assets

Certain proceeds of revenue and general obligation bonds of HWEA, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "Bond and Interest Redemption" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "Depreciation" and "Equipment Maintenance 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>2019</u>	<u>2018</u>
Construction fund	\$ -	\$ -
Equipment maintenance and replacement fund	<u>2,081,443</u>	<u>2,031,784</u>
Total restricted assets	<u>\$ 2,081,443</u>	<u>\$ 2,031,784</u>

For the years ended June 30, 2019 and 2018, the equipment maintenance and replacement fund includes \$2,081,443 and \$2,031,784, respectively, to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority.

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

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

h. 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.

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

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

k. Capital Contributions

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 project 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.

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

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

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 pension 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.

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.

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

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

p. Adoption of New Accounting Pronouncements, continued

During the year ended June 30, 2019, management adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt.

q. Deficit Net Position

HWEA had deficit unrestricted net position at June 30, 2019 and 2018 totaling \$1,382,828 and \$1,826,379, respectively. These deficits were 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, 2019 and 2018, 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, 2019 and 2018, HWEA had no investments; therefore, there were no investments that were exposed to custodial credit risk.

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

**2. DEPOSITS AND INVESTMENTS, continued**

b. Investments, continued

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

Concentration of Credit Risk: HWEA places no limit on the amount that may be invested in any one issuer. HWEA's investments, 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>2019</u>	<u>2018</u>
Customer accounts receivable	\$1,098,644	\$ 1,074,366
Allowance for uncollectible	-	-
Miscellaneous receivables	<u>14,712</u>	<u>20,325</u>
Total receivables	<u>\$1,113,356</u>	<u>\$ 1,094,691</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>2019</u>	<u>2018</u>
Accounts charged off in current period	\$ 134,995	\$ 138,810
Recovery of accounts previously charged off	<u>(46,189)</u>	<u>(42,436)</u>
Net bad debts	<u>\$ 88,806</u>	<u>\$ 96,374</u>

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

**3. RECEIVABLES, continued**

HWEA had 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 \$0 and \$31,485 at June 30, 2019 and 2018, 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 \$129,218 and \$145,370 at June 30, 2019 and 2018, 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 complete, HWEA was to be reimbursed for the full amount of the projects over a ten-year period by USACE. As a result of this arrangement, HWEA recorded two separate receivables (with deferred revenue offsetting each receivable) for the amount of funds drawn on each loan. Upon reimbursement by USACE, HWEA would begin to write down the other receivable and amortize to revenue the deferred revenue balance over the same period of time the underlying assets are being depreciated.

During the year ended June 30, 2018, the water line project described above 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 \$2,013,212 and \$2,236,942 at June 30, 2019 and 2018, 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, 2019 and 2018, \$143,587 and \$119,656, respectively, was amortized to other operating revenue. The balance of this deferred revenue account was \$4,599,873 and \$4,743,460 at June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019, the natural gas pipeline portion of this project was terminated by USACE. Upon termination, HWEA cleared all construction costs from their books, zeroed out the other receivable and deferred revenue accounts associated with this project, paid off the line of credit balance that had been used to fund this project, and recorded a receivable for \$2,400,000, which was the amount to be reimbursed by USACE for costs incurred on the terminated project. The balance of the other receivable was \$2,400,000 and \$2,174,368 at June 30, 2019 and 2018, respectively. The balance of the deferred revenue account was \$0 and \$2,174,368 at June 30, 2019 and 2018, respectively.

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

**3. RECEIVABLES, continued**

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

	<u>2019</u>	<u>2018</u>
Note receivable - CCBE	\$ -	\$ 31,485
Note receivable - HIF	<u>129,218</u>	<u>145,370</u>
Total Notes receivable	<u>\$ 129,218</u>	<u>\$ 176,855</u>
Other receivable - USACE - Water line	\$ 2,013,212	\$ 2,236,942
Other receivable - USACE - Gas line	<u>2,400,000</u>	<u>2,174,368</u>
Total Other receivables	<u>\$ 4,413,212</u>	<u>\$ 4,411,310</u>
Deferred revenue - USACE - Water line	\$ 4,599,873	\$ 4,743,460
Deferred revenue - USACE - Gas line	<u>-</u>	<u>2,174,368</u>
Total Deferred revenue - USACE	<u>\$ 4,599,873</u>	<u>\$ 6,917,828</u>

**4. INVENTORY**

Inventory as of June 30, 2019 and 2018, consisted of materials and supplies with a weighted-average cost of \$251,413 and \$258,315, respectively.

**5. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant and equipment as of June 30, 2019, is as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,571,840	\$ -	\$ -	\$ 1,571,840
Construction in progress	8,739,416	743,641	6,166,003	3,317,054
Capital Assets Being Depreciated:				
Structures and improvements	169,167,046	4,278,394	43,493	173,401,947
Equipment	9,651,737	479,044	7,536	10,123,245
Vehicles	1,342,920	86,211	42,960	1,386,171
Less Accumulated Depreciation:				
Structures and improvements	68,971,933	4,285,716	24,053	73,233,596
Equipment	8,840,068	200,347	11,148	9,029,267
Vehicles	<u>616,099</u>	<u>126,092</u>	<u>33,104</u>	<u>709,087</u>
Total	<u>\$112,044,859</u>	<u>\$ 975,135</u>	<u>\$ 6,191,687</u>	<u>\$106,828,307</u>

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

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

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>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$4,612,155 and \$4,477,069, 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, 2019 and 2018 was \$1,728,178 and \$1,838,541, respectively, all of which were expensed.

**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.

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

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

Long-term debt at June 30 is as follows:

	<u>Rate</u>	<u>2019</u>	<u>2018</u>
<u>Revenue Bonds:</u>			
Series 1998-Maturing 2021	3.750% to 4.900%	\$ 185,000	\$ 270,000
Series 2010B-Maturing 2030	3.200% to 4.400%	<u>2,174,000</u>	<u>2,338,000</u>
Total Revenue Bonds		<u>2,359,000</u>	<u>2,608,000</u>
<u>KIA Loans:</u>			
KIA Fund A Maturing 2020	0.400%	16,849	50,446
KIA Fund A Phase III-Maturing 2021	3.800%	86,649	141,755
KIA Fund B Water Plant-Maturing 2026	1.900%	1,431,861	1,621,375
KIA Fund A Phase IV-Maturing 2026	1.000%	1,633,304	1,875,314
KIA Fund A Phase V-Maturing 2027	1.000%	1,050,270	1,175,758
KIA Fund F, Drinking Water- Maturing 2028	1.000%	718,578	794,511
KIA Fund F Water-Maturing 2028	3.000%	2,101,739	2,302,368
KIA Fund F Water-Maturing 2032	1.000%	6,130,190	6,552,281
KIA Fund A Sewer-Maturing 2033	2.000%	358,222	380,191
KIA Fund A Sewer-Maturing 2034	2.000%	5,885,902	6,219,310
KIA Fund A Sewer-Maturing 2036	2.000%	6,197,968	6,501,325
KIA Fund A Sewer-Maturing 2036	2.000%	9,887,230	-
KIA Fund A (Maturities not established-loans not closed)		726,900	10,926,542
KIA Fund F (Maturities not established-loans not closed)		<u>3,848,253</u>	<u>3,368,468</u>
Total KIA Loans		<u>40,073,915</u>	<u>41,909,644</u>
<u>Revenue Leases – Planters:</u>			
Water-Maturing 2027	4.000%	1,385,460	1,529,504
Gas	4.500%	<u>-</u>	<u>2,040,196</u>
Total Revenue Leases - Planters		<u>1,385,460</u>	<u>3,569,700</u>
<u>Payable to City of Hopkinsville:</u>			
<u>General Obligation Bonds:</u>			
Series 2013B-Maturing 2034	2.000% to 4.500%	2,835,000	2,980,000
Series 2014B-Maturing 2038	1.500% to 6.625%	1,635,000	1,700,000
Series 2014C-Maturing 2029	1.100% to 3.250%	1,145,000	1,265,000
Series 2015A-Maturing 2026	4.000%	<u>10,915,000</u>	<u>12,240,000</u>
Total Payable to City of Hopkinsville		<u>\$ 16,530,000</u>	<u>\$ 18,185,000</u>

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

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

	<u>Rate</u>	<u>2019</u>	<u>2018</u>
Net Pension Liability		<u>\$ 7,930,917</u>	<u>\$ 7,962,547</u>
Net OPEB Liability		<u>2,311,977</u>	<u>2,734,769</u>
Compensated Absences		<u>449,289</u>	<u>426,389</u>
 Total Long-Term Debt		 71,040,558	 77,396,049
Less: Maturities due within one year		(4,841,207)	(4,234,867)
Unamortized bond (discount) / premium		<u>1,098,461</u>	<u>1,260,815</u>
 Total Long-term Debt, Net		 <u>\$67,297,812</u>	 <u>\$74,421,997</u>

During the year ended June 30, 2019, the following changes occurred in long-term debt:

	<u>Principal Outstanding July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2019</u>	<u>Due Within One Year</u>
Compensated absences	\$ 426,389	\$ 208,562	\$ (185,662)	\$ 449,289	\$ 224,715*
Revenue bonds	2,608,000	-	(249,000)	2,359,000	261,500
KIA loans	41,909,644	634,548	(2,470,277)	40,073,915	2,497,100
Revenue leases – Planters	3,569,700	-	(2,184,240)	1,385,460	147,892
Payable to City of Hopkinsville:					
Gen. obligation bond – 2013B	2,980,000	-	(145,000)	2,835,000	145,000
Gen. obligation bond – 2014B	1,700,000	-	(65,000)	1,635,000	65,000
Gen. obligation bond – 2014C	1,265,000	-	(120,000)	1,145,000	120,000
Gen. obligation bond – 2015A	12,240,000	-	(1,325,000)	10,915,000	1,380,000
Net pension liability	7,962,547	436,225	(467,855)	7,930,917	-
Net OPEB liability	2,734,769	-	(422,792)	2,311,977	-
Unamortized bond premium	1,266,926	-	(162,871)	1,104,055	-
Unamortized bond discount	<u>(6,111)</u>	<u>-</u>	<u>517</u>	<u>(5,594)</u>	<u>-</u>
 Total	 <u>\$ 78,656,864</u>	 <u>\$ 1,279,335</u>	 <u>\$ (7,797,180)</u>	 <u>\$ 72,139,019</u>	 <u>\$ 4,841,207</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.

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

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

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

	Principal Outstanding July 1, 2017	Additions	Reductions	Principal Outstanding June 30, 2018	Due Within One Year
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	(6,630)	-	519	(6,111)	-
<b>Total</b>	<b><u>\$ 79,635,196</u></b>	<b><u>\$ 6,428,539</u></b>	<b><u>\$ (7,406,871)</u></b>	<b><u>\$ 78,656,864</u></b>	<b><u>\$ 4,234,867</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.

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

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

Revenue Bonds, continued:

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

Annual debt service requirements projected to maturity for all revenue bonds are as follows as of June 30, 2019:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	198,500	62,074	260,574
2025-2029	1,124,000	177,823	1,301,823
2030	<u>125,000</u>	<u>5,500</u>	<u>130,500</u>
Total	<u>\$ 2,359,000</u>	<u>\$ 584,865</u>	<u>\$ 2,943,865</u>

As of June 30, 2019, HWEA has pledged future revenues of the water and sewer system to repay \$2,359,000 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, 2020, as a percentage of net water and sewer system revenues for the year ended June 30, 2019, which totaled \$17,799,083). Principal and interest paid for the year ended June 30, 2019, was \$360,683. As of June 30, 2019, pledged future revenues totaled \$2,943,865, 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.

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

**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, 2019:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,497,100	\$ 624,607	\$ 3,121,707
2021	2,494,251	580,585	3,074,836
2022	2,507,428	537,422	3,044,850
2023	2,550,862	493,988	3,044,850
2024	2,595,130	449,710	3,044,840
2025-2029	11,442,317	1,587,344	13,029,661
2030-2034	8,937,359	685,534	9,622,893
2035-2037	<u>7,049,468</u>	<u>70,445</u>	<u>7,119,913</u>
Total	<u>\$40,073,915</u>	<u>\$ 5,029,635</u>	<u>\$ 45,103,550</u>

As of June 30, 2019, HWEA has pledged future revenues of the water and sewer system to repay \$40,073,915 in total KIA loans, 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 18% of such net revenues (based on principal and interest payments for the year ending June 30, 2020, as a percentage of net water and sewer system revenues for the year ended June 30, 2019, which totaled \$17,799,083). Principal and interest paid for the year ended June 30, 2019, was \$3,222,260. As of June 30, 2019, pledged future revenues totaled \$45,103,550, which was the amount of the remaining principal and interest payments on these KIA loans.

KIA requires that HWEA establish a maintenance and replacement reserve account to deposit funds that are to be used specifically for extraordinary maintenance expenses related to projects funded by KIA or for the unbudgeted costs of replacing worn or obsolete portions of such projects. For the years ended June 30, 2019 and 2018, HWEA has set aside \$2,081,443 and \$2,031,784, respectively, to meet these reserve requirements, which are reported as restricted assets on the Statement of Net Position.

In the event of default by HWEA, KIA may, without any further demand or notice, take one or any combination of the following remedial steps: 1) declare all payments immediately due and payable; 2) exercise all the rights and remedies available to KIA; 3) take whatever action may appear necessary or desirable to enforce its rights; and 4) submit a formal referral to the appropriate federal agency as required.

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

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

KIA Loans, continued:

Events of default include any one or more of the following: 1) failure by HWEA to pay specified payments at specified times; 2) failure by HWEA to observe or perform any covenant, condition or agreement; 3) the dissolution or liquidation of HWEA or the voluntary initiation by HWEA of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt, or any other form of debtor relief; and 4) a default by HWEA under the provisions of any agreements relating its debt obligations.

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%.

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 could be made from the lease as construction progressed, the aggregate of which could not exceed \$10,951,730. The interest rate on this lease agreement was 4.50%. During the fiscal year ended June 30, 2019, USACE terminated this project and agreed to reimburse HWEA \$2.4 million in costs incurred on the project. Upon notice of termination, HWEA paid off the principal and interest due and set up a receivable for the \$2.4 million reimbursement from USACE.

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

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

Revenue Leases, continued:

Annual debt service requirements projected to maturity for the remaining revenue lease is as follows as of June 30, 2019:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 147,892	\$ 54,637	\$ 202,529
2021	153,915	48,613	202,528
2022	160,183	42,343	202,526
2023	166,711	35,815	202,526
2024	173,504	29,024	202,528
2025-2028	583,255	44,054	627,309
Total	<u>\$ 1,385,460</u>	<u>\$ 254,486</u>	<u>\$ 1,639,946</u>

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.

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

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

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

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 an interest rate of 4.00%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

Annual debt service requirements projected to maturity for amounts payable to the City of Hopkinsville for general obligation bonds are as follows as of June 30, 2019:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,980,000	320,800	2,300,800
2025-2029	5,270,000	714,272	5,984,272
2030-2034	1,600,000	251,756	1,851,756
2035-2038	435,000	32,174	467,174
Total	<u>\$16,530,000</u>	<u>\$ 3,314,875</u>	<u>\$ 19,844,875</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, 2019 and 2018, 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, 2019 and 2018 are shown on the statement of net position as deferred refunding costs under deferred outflows of resources. Amortization on these refundings was \$64,749 and \$64,749 for the years ended June 30, 2019 and 2018, respectively.

**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**

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.

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.

**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**

Pension Benefits Provided, continued:

Members whose participation began before 8/1/2004:

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

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

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

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

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

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

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

<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%

**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**

Pension Benefits Provided, continued:

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

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

Benefit: Each year that a member is an active contributing member to 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.

**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**

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, 2019 and 2018, participating employers contributed 21.48% (16.22% allocated to pension and 5.26% allocated to OPEB) and 19.18% (14.48% allocated to pension and 4.70% 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, 2019 and 2018. Total contributions recognized by the Plan were \$708,955 (\$535,347 related to pension and \$173,608 related to insurance) and \$619,714 (\$464,785 related to pension and \$154,929 related to OPEB) for the years ended June 30, 2019 and 2018, respectively. The OPEB contribution amounts do not include the implicit subsidy reported in the amount of \$37,297 or \$33,424 for the years ended June 30, 2019 and 2018, respectively.

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.

**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**

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"), net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are as follows:

Inflation:	2.30%
Salary increases:	3.05%
Investment rate of return:	6.25% for CERS non-hazardous and hazardous

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2018 is determined using these updated benefit provisions.

**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**

Actuarial Assumptions and Other Inputs, continued:

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.

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 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.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

**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**

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%.
- b. Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year (closed) amortization period of the unfunded actuarial accrued liability.
- c. Long-term rate of return: The long-term expected rate of return was determined used a building-block method in which best-estimate ranges of expected 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:

**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**

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 Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	<u>100.00%</u>	<u>6.09%</u>

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>\$9,984,203</u>	<u>\$7,930,917</u>	<u>\$6,210,623</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**

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 \$7,930,917, or approximately 0.13% for nonhazardous pensions. The net pension liability was distributed based on 2018 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, 2018, 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 \$1,414,813 related to the CERS pension for the year ended June 30, 2019.

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:

**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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 258,684	\$ 116,092
Difference between expected and actual earnings on plan investments	368,793	463,890
Change in assumptions	775,081	-
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	<u>176,013</u>	<u>199,318</u>
	1,578,571	779,300
HWEA contributions subsequent to the measurement date	<u>535,347</u>	<u>-</u>
Total	<u>\$ 2,113,918</u>	<u>\$ 779,300</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$535,347 will be recognized as a reduction of net pension liability in the year ended June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized as follows:

Year ending June 30:	
2019	\$ 691,993
2020	279,186
2021	(129,340)
2022	(42,568)
2023	-
	<u>\$ 799,271</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.

**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**

**OPEB Information:**

Actuarial Assumptions and Other Inputs:

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provision for active members who die in the line of duty. The System shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions. The actuarial assumptions are as follows:

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 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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.

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.

**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**

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 OPEB liability have been updated as follows:

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

Discount Rate Assumptions:

- a. Discount rate: The discount rate used to measure the total OPEB liability was 5.85% for CERS non-hazardous.
- b. Projected cash flows: The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year (closed) amortization period of the unfunded actuarial accrued liability.
- c. Long-term rate of return: The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected 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 3.62% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018.
- 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 was not included in the calculation of the System's actuarial determined contributions, and 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:

**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**

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 Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	<u>100.00%</u>	<u>6.09%</u>

g. Sensitivity analysis: The following presents HWEA's allocated portion of the net OPEB liability of the System, calculated using the discount rate of 5.85%, 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 (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
<u>Nonhazardous:</u> Discount rate	4.85%	5.85%	6.85%
HWEA's Net OPEB Liability	<u>\$3,002,888</u>	<u>\$2,311,977</u>	<u>\$1,723,448</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**

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>\$1,721,290</u>	<u>\$2,311,977</u>	<u>\$3,008,228</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 \$2,311,977, or approximately 0.13% for nonhazardous pensions. The net OPEB liability was distributed based on 2018 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, 2018, 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 \$276,618 related to the OPEB for the year ended June 30, 2019.

**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:

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	\$ -	\$ 269,430
Difference between expected and actual earnings on plan investments	-	159,250
Change in assumptions	461,736	5,342
Changes in proportion and differences between employer contributions and proportionate shares of plan contributions	-	<u>95,953</u>
	<u>461,736</u>	<u>529,975</u>
HWEA contributions subsequent to the measurement date	<u>173,608</u>	<u>-</u>
Total	<u>\$ 635,344</u>	<u>\$ 529,975</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$173,608 will be recognized as a reduction of net OPEB liability in the year ended June 30, 2020. The remainder of the deferred outflows and deferred inflows of resources are amortized as follows:

Year ending June 30:	
2019	\$ (10,107)
2020	(10,107)
2021	(10,107)
2022	20,822
2023	(38,380)
Thereafter	<u>(20,360)</u>
	<u>\$ (68,239)</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, 2019, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 18,336,601	\$17,799,083	\$ (537,518)
Other Operating Expenses	(10,315,675)	(10,688,617)	(372,942)
Depreciation Expense	<u>(4,677,250)</u>	<u>(4,612,155)</u>	<u>65,095</u>
Operating Income	3,343,676	2,498,311	(845,365)
Nonoperating Revenues	189,400	676,965	487,565
Nonoperating Expenses	<u>(1,731,250)</u>	<u>(1,802,388)</u>	<u>(71,138)</u>
Income before Contributions and Transfers	<u>\$ 1,801,826</u>	<u>\$ 1,372,888</u>	<u>\$ (428,938)</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, 2019 and 2018, 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**

**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 a self-insured health plan for its employees. HWEA has purchased stop-loss insurance in order to limit its exposure, which will reimburse HWEA for individual claims in excess of \$32,500 annually. Self-insurance losses are accrued based on HWEA's estimate of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed by the insurance industry.

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, 2019 and 2018, the claims liability was \$90,528 and \$64,284, 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>
2017-2018	\$53,347	\$ 403,439	\$ 392,502	\$64,284
2018-2019	\$64,284	\$ 587,184	\$ 560,940	\$90,528

**12. CONSTRUCTION COMMITMENT**

At June 30, 2019, HWEA had several construction projects underway:

<u>Project</u>	<u>Cost-to-Date</u>	<u>Estimated Cost to Complete</u>
Water Main Extension – Eagle Way Bypass Phase 2	\$ 19,500	\$ 2,138,000
Locust Grove to I-24 – Phase 4	5,340	3,000,000
Natural Gas Project – Phase 1	1,827,146	-
Oak Grove KY Hwy 911 Project	945	75,000
Hammond-Wood Phase 8 Design	1,464,123	695,000
Hammond-Wood Phase 8 Expansion / Rehab	<u>-</u>	<u>41,380,000</u>
Total	<u>\$ 3,317,054</u>	<u>\$ 47,288,000</u>

**13. RECLASSIFICATIONS**

Certain accounts in the June 30, 2018 financial statements have been reclassified for comparative purposes to conform to the presentation in the June 30, 2019 financial statements.

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

**14. RELATED PARTY TRANSACTIONS**

The City of Hopkinsville, on behalf of HWEA, 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.

The City of Hopkinsville also approved a series of three sewer rate increases of 14% each that were (or 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, 2019.

The \$2.4 million receivable from USACE relating to the terminated Ft. Campbell natural gas project was collected in July 2019.

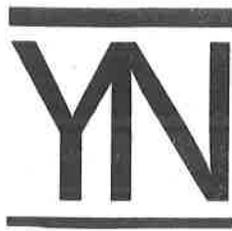
In September 2019, HWEA purged and commissioned the Phase I natural gas pipeline, which is composed of 6.3 miles of 12" natural gas main along the US41A corridor. HWEA also entered into an agreement with Clarksville Gas to supply the pipeline with natural gas. As a result, this natural gas main is now active and ready to provide service to customers along the corridor, which will impact natural gas revenues of HWEA for the coming years.

Also subsequent to the year ended June 30, 2019, HWEA's Board approved the following matters: 1) a change order totaling \$508,500 relating to construction administration and inspection on the Hammond Wood Waste Water Treatment Plant renovation/expansion; 2) a resolution to be signed by the Hopkinsville mayor relating to a \$7.5 million KIA loan for phase 8 of the Hammond Wood project; and 3) preparation and execution of a purchase contract in the amount of \$400,000 for the purchase of 1.16 acres at 1100 South Clay Street.

Management has evaluated subsequent events through November 18, 2019, the date on which the financial statements were available to be issued.

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

## **Supporting Schedules**



**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, 2019, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated November 18, 2019.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*York, Neel & Associates, LLP*

Hopkinsville, Kentucky  
November 18, 2019