HOPKINSVILLE WATER ENVIRONMENT AUTHORITY

REPORT ON AUDITS OF FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

1113 BETHEL STREET | HOPKINSVILLE, KY 42240 | PHONE: (270) 886-0206 | FAX: (270) 886-0875 | WWW.YORKNEEL.COM

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

DIRECTORY OF OFFICIALS
June 30, 2025

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ATTORNEY

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PRESIDENT & CEO

Derrick Watson

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

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YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements as listed in the table of contents.

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, 2025 and 2024, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HWEA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HWEA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HWEA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HWEA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other things, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4–10, the Schedule of HWEA's Proportionate Share of the Net Pension Liability on page 67, the Schedule of HWEA's Pension Contributions on page 68, the Schedule of HWEA's Proportionate Share of the Net OPEB Asset / Liability on page 69, and the Schedule of HWEA's OPEB Contributions on page 70 be presented to supplement the basic financial statements.

Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HWEA's basic financial statements. The accompanying combining and other schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 71–83, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and other schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2025, on our consideration of HWEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HWEA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HWEA's internal control over financial reporting and compliance.

York, Neel & Associates, LLP

Hopkinsville, Kentucky
December 10, 2025

Management's Discussion and Analysis
(Required Supplementary Information)

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hopkinsville Water Environment Authority (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the years ended June 30, 2025, and 2024. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to enhance their understanding of financial performance.

FINANCIAL HIGHLIGHTS

- For the year ended June 30, 2025, HWEA's total assets and deferred outflows of resources increased $4.93 million, while total liabilities and deferred inflows of resources increased $879 thousand, resulting in total net position increasing approximately $4.05 million over the course of the year's operations.

- For the year ended June 30, 2025, HWEA's proportionate share percentage remained steady at 0.18% for both the CERS pension and OPEB. HWEA's share of the CERS net pension liability decreased $260 thousand, and its share of the CERS net OPEB asset increased $73 thousand during the year June 30, 2025. Changes also occurred in the deferred outflows and inflows of resources related to the net pension and OPEB liabilities.

- Additional changes in long-term debt were the result of HWEA taking draws from certain State Revolving Fund (SRF) loans of the Kentucky Infrastructure Authority (KIA) in order to finance various construction projects and also paying down SRF loans and other debt.

- HWEA's operating revenues increased 2.95% during the year ended June 30, 2025, while operating expenses increased 2.18%. The 9.50% sewer rate increase for Hopkinsville and Pembroke that was implemented in January 2024 helps explain the increase in operating revenues since fiscal year ended June 30, 2025, was the first full year that the increase was effective. The largest increase in operating expenses was in depreciation expense, which resulted from HWEA placing the new Hopkinsville Clean Water Treatment Plant into service during the year ended June 30, 2025. Due to HWEA recording its proportionate share of the net pension liability and the net OPEB asset, there were also fluctuations in employee benefits, which is not unusual.

- Non-operating revenues for the year ended June 30, 2025, decreased approximately $157 thousand, which was mainly due to a decrease in interest revenue.

- Non-operating expenses for the year ended June 30, 2025, decreased approximately $19 thousand, which was mainly because of interest expense being less due to paying down debt.

- Capital contributions decreased $775 thousand for the year ended June 30, 2025, which is mainly due to HWEA receiving less grant income compared to the year ended June 30, 2024. During the year ended June 30, 2025, HWEA received $1.29 million in grant income, which came from grants from the Kentucky Cleaner Water Program, as provided by the American Rescue Plan Act of 2021, Coronavirus State Fiscal Recovery Fund, to aid in the funding of various projects, including the Meter Replacement Program.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

All of HWEA's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of HWEA's operations for the years ended June 30, 2025, and 2024, 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.

FINANCIAL ANALYSIS OF THE HOPKINSVILLE WATER ENVIRONMENT AUTHORITY

The most common financial question posed to the Hopkinsville Water Environment Authority is "How did we do financially during fiscal year 2025?" 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.

NET POSITION

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

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

	FY 2025	FY 2024	Dollar Change	Percent Change
Current and Other Assets	$11,267	$12,376	$ (1,109)	(8.96)%
Capital Assets	151,884	145,621	6,263	4.30%
Total Assets	163,151	157,997	5,154	3.26%
Deferred Outflows of Resources	2,645	2,874	(229)	(7.97)%
Total Assets and Deferred Outflows of Resources	165,796	160,871	4,925	3.06%
Current and Other Liabilities	7,052	7,703	(651)	(8.45)%
Noncurrent Liabilities	87,924	85,492	2,432	2.84%
Total Liabilities	94,976	93,195	1,781	1.91%
Deferred Inflows of Resources	7,972	8,875	(903)	(10.17)%
Total Liabilities and Deferred Inflows of Resources	102,948	102,070	878	0.86%
Net Investment in Capital Assets	69,217	65,499	3,718	5.68%
Restricted	3,084	2,877	207	7.20%
Unrestricted	(9,453)	(9,575)	122	1.27%
Total Net Position	$62,848	$58,801	$ 4,047	6.88 %

The net decrease in current and other assets is mainly due to an overall decrease in cash and cash equivalents and inventory, which is the result of regular operating activities. Decreases in cash and cash equivalents also occurred from purchasing various capital assets, paying construction costs on various ongoing projects, and making principal and interest payments on debt during the year ended June 30, 2025.

The main reason for the large increase in capital assets relates to the construction of the new Hopkinsville Clean Water Treatment Plant. Approximately $6.06 million was spent on this project during the year ended June 30, 2025.

Draws on various SRF loans from KIA to fund certain water and sewer construction projects, and the subsequent repayment of SRF loans and other debt help to explain the net increase in noncurrent liabilities. Other factors affecting noncurrent liabilities are the requirements per Governmental Accounting Standards Board Statement (GASBS) No. 68 and GASBS No. 75 to record HWEA's proportionate share of the net pension liability and the net OPEB asset associated with the statewide local government retirement plan in which HWEA participates. GASBS No. 68 and GASBS No. 75 also account for the majority of changes to both deferred outflows and inflows of resources.

NET POSITION, continued

Unrestricted net position is the residual of total net position after taking into account net position associated with capital assets and related debt and net position related to restricted assets. The $122 thousand decrease in the deficit of unrestricted net position is a function of various net earnings from operating and nonoperating revenues, expenses, and contributions of capital that occurred during the year ended June 30, 2025. HWEA expects results from future operations to fund the $9.45 million deficit at June 30, 2025.

CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position, 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 Statements 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)

	FY 2025	FY 2024	Dollar Change	Percent Change
Operating Revenues	$ 23,962	$ 23,276	$ 686	2.95 %
Nonoperating Revenues	402	559	(157)	(28.09)%
Total Revenues	24,364	23,835	529	2.22 %
Depreciation Expense	5,670	5,326	344	6.46 %
Other Operating Expenses	15,138	15,040	98	0.65 %
Interest Expense	1,052	1,071	(19)	(1.77)%
Other Nonoperating Expenses	65	65	-	0.00 %
Total Expenses	21,925	21,502	423	1.97 %
Income/(Loss) before Capital Contributions	2,439	2,333	106	4.54%
Capital Contributions	1,608	2,383	(775)	(32.52)%
Change in Net Position	4,047	4,716	(669)	(14.19)%
Beginning Net Position	58,801	54,085	4,716	8.72%
Ending Net Position	$ 62,848	$ 58,801	$ 4,047	6.88%

CHANGES IN NET POSITION, continued

As can be seen from the table above, operating revenues increased by an overall amount of $686 thousand, which is, in part, a result of fiscal year ended June 30, 2025, being the first full year that the 9.50% sewer rate increase for Hopkinsville and Pembroke was effective (implemented in January 2024). Nonoperating revenues decreased $157 thousand, which is mainly due to HWEA earning less interest on invested cash and cash equivalents during the year ended June 30, 2025, because of having lower balances throughout the year. The $98 thousand net increase in other operating expenses is partly due to fluctuations in labor, utilities, chemicals, and repairs across various departments, but most of the overall increase is due to an increase in depreciation expense because of placing the new Hopkinsville Clean Water Treatment Plant into service during the year ended June 30, 2025. Interest expense decreased because of paying down long-term debt. The $775 thousand decrease in capital contributions is mainly due to HWEA receiving less grant income during the year ended June 30, 2025, to aid in the funding of various projects, including the Meter Replacement Program.

BUDGETARY HIGHLIGHTS

HWEA is not legally required to adopt and adhere to a budget or to present budgetary comparison information. However, HWEA's Board chooses to approve an annual budget as a management tool, which includes proposed expenses and the means of financing them. The approved budget serves as the foundation for HWEA's financial planning and control.

Table A-3
Budget vs. Actual
FY 2025
(000's)

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 22,050	$ 23,962	$ 1,912
Depreciation Expense	(6,072)	(5,670)	402
Other Operating Expenses	(15,974)	(15,139)	835
Operating Income	4	3,153	3,149
Nonoperating Revenues and Capital Contributions	2,970	2,011	(959)
Interest Expense	(1,245)	(1,052)	193
Other Nonoperating Expenses	(109)	(65)	44
Change in Net Position	$ 1,620	$ 4,047	$ 2,427

CAPITAL ASSETS

At June 30, 2025, HWEA had approximately $247.46 million invested in capital assets as shown in Table A-4. During the years ended June 30, 2025, and 2024, various capital assets were purchased and/or constructed and placed into service, and various capital assets were disposed of either because the asset had been sold or was no longer in service.

Construction in progress at June 30, 2025, consisted of work done on various drinking water and clean water projects, the largest of which was the renovation/expansion of the Hopkinsville Clean Water Treatment Plant. Approximately $6.06 million was spent on this project during the year ended June 30, 2025, before being placed into service. Other significant construction projects still in progress at June 30, 2025, included the Southpark Water Tank Project and Contract B of the US-41A 24" Water Main Extension Project.

Construction projects that were completed and placed into service during the year ended June 30, 2025, include Contract A of the US-41A 24" Water Main Extension Project, the Hailes Avenue Sewer Pump Station Rehabilitation Project, the Conference Center Sewer Pump Station Force Main Relocation Project, the Kentucky 115 North Sewer Pump Station Rehabilitation Project, and Phase 8 of the Hopkinsville Clean Water Treatment Plant Expansion. See Note 14 to the financial statements for information on construction commitments.

Table A-4
Capital Assets
(000's)

	FY 2025	FY 2024	Dollar Change	Percent Change
Drinking Water	$ 107,568	$ 103,842	$ 3,726	3.59%
Clean Water	133,727	138,256	(4,529)	(3.28)%
Gas	6,166	6,100	66	1.08%
	247,461	248,198	(737)	(0.30)%
Less: Accumulated Depreciation	(95,577)	(102,577)	7,000	6.82%
Net Capital Assets	$ 151,884	$ 145,621	$ 6,263	4.30%

DEBT ADMINISTRATION

The revenues of the drinking water and clean water systems collateralize outstanding revenue bonds and State Revolving Fund loans 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 drinking water and clean water systems.

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

OTHER INFORMATION SIGNIFICANT TO OPERATIONS

A series of water and sewer retail rate increases were approved and became effective over the past several years. The latest retail water rate increase became effective July 1, 2017, and the latest retail sewer rate increase for Hopkinsville and Pembroke became effective January 1, 2024. Currently, there are no additional retail water or sewer rates increases set to go into effect; however, a series of wholesale water rate increases were approved by the Hopkinsville City Council in August 2025 with the first increase becoming effective October 1, 2025. Any future rate changes will impact revenues of HWEA for the coming years.

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 has an agreement with Clarksville Gas to supply the pipeline with natural gas. As a result, this natural gas main is now active and HWEA continues to connect new customers as needs arise, which will affect natural gas revenues of HWEA in coming years.

Subsequent to the year ended June 30, 2025, the Hopkinsville City Council issued a Municipal Order to allow HWEA to apply for KIA SRF loan number A26-003S in the amount of $7,044,050 to help fund HWEA's SRF Phase IX – Priority 3 Sewer Rehabilitation Project. HWEA also received approval from the HWEA Board to apply for grant funding from KYWWATERS in support of several projects, the largest of which is Phase IV – Southpark 2 MG Elevated Storage Tank at an estimated cost of $14.5 million.

HWEA is also currently working with FEMA to receive reimbursement for eligible expenses incurred during the April 2025 flood event in Christian County, Kentucky.

FINAL COMMENTS

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

Financial Statements

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
June 30, 2025 and 2024

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Unrestricted current assets:		
Cash and cash equivalents	$ 5,326,971	$ 6,110,215
Customer receivables, less allowance for doubtful accounts of $0 and $0, respectively	1,755,461	1,852,547
Inventory	456,842	616,776
Prepaid insurance	29,940	26,096
Accrued interest on note receivable	121	121
Total unrestricted current assets	7,569,335	8,605,755
Restricted current assets:		
Cash and cash equivalents	2,778,179	2,644,205
Total current assets	10,347,514	11,249,960
Noncurrent assets:		
Capital assets:		
Property, plant and equipment	245,060,185	200,968,909
Construction in progress	2,400,008	47,228,285
Accumulated depreciation	(95,576,633)	(102,576,619)
Net capital assets	151,883,560	145,620,575
Other noncurrent assets:		
Note receivable	32,304	48,456
Other receivable - USACE	582,543	845,410
Net OPEB asset	305,331	232,508
Total other noncurrent assets	920,178	1,126,374
Total noncurrent assets	152,803,738	146,746,949
Total assets	163,151,252	157,996,909
Deferred outflows of resources:		
Deferred outflows from pension	1,980,535	1,918,191
Deferred outflows from OPEB	626,300	852,771
Deferred refunding costs	38,104	102,854
Total deferred outflows of resources	2,644,939	2,873,816
Total assets and deferred outflows of resources	$ 165,796,191	$ 160,870,725

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION (continued)
June 30, 2025 and 2024

	2025	2024
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities:		
State Revolving Fund loans, current portion	$ 2,720,380	$ 2,801,599
Payable to City of Hopkinsville, current portion	2,314,000	2,265,000
Payable to City of Hopkinsville, PILOT	86,172	90,242
Customer deposits	11,700	6,900
Accrued interest	146,409	157,771
Construction retainage payable	499,960	329,120
Accounts payable	506,827	987,181
Construction contracts payable	32,614	485,150
Accrued salaries	276,252	221,538
Accrued compensated absences	458,539	358,806
Total current liabilities	7,052,853	7,703,307
Noncurrent liabilities:		
State Revolving Fund loans, net of current portion	73,038,437	67,767,375
Payable to City of Hopkinsville, net of current portion	4,099,332	6,575,687
Net pension liability	10,545,760	10,805,978
Net OPEB liability	-	-
Compensated absences, net of current portion	240,711	342,288
Total noncurrent liabilities	87,924,240	85,491,328
Total liabilities	94,977,093	93,194,635
Deferred inflows of resources:		
Deferred revenue - fire service collected in advance	120,233	-
Deferred revenue - USACE	3,738,348	3,881,935
Deferred inflows from pension	1,178,536	1,258,105
Deferred inflows from OPEB	2,934,474	3,735,170
Total deferred inflows of resources	7,971,591	8,875,210
Total liabilities and deferred inflows of resources	102,948,684	102,069,845
Net position:		
Net investment in capital assets	69,216,941	65,499,498
Restricted	3,083,510	2,876,713
Unrestricted (deficit)	(9,452,944)	(9,575,331)
Total net position	62,847,507	58,800,880
Total liabilities, deferred inflows of resources, and net position	$ 165,796,191	$ 160,870,725

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, 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, 2025 and 2024

	2025	2024
Operating revenues:		
Charges for services (net of allowances of $122,746 and $137,567 for 2025 and 2024, respectively)	$ 23,587,429	$ 22,799,135
Other operating revenue	374,839	477,006
Total operating revenues	23,962,268	23,276,141
Operating expenses:		
Drinking water source of supply	553,591	632,586
Drinking water purification	2,259,720	2,234,446
Drinking water distribution	1,968,598	1,883,727
Clean water treatment plant and pumping stations	3,726,368	3,498,579
Clean water distribution	1,734,469	1,684,850
Natural gas	417,134	365,771
Engineering services	775,628	920,141
Customer service	1,821,047	1,722,333
Administrative and general	1,882,477	2,097,738
Depreciation	5,670,235	5,325,779
Total operating expenses	20,809,267	20,365,950
Operating income	3,153,001	2,910,191
Nonoperating revenues (expenses):		
Interest revenue	380,949	497,599
Gain (loss) on sale of property, plant and equipment	21,416	61,365
Amortization of deferred refunding costs	(64,749)	(64,749)
Interest expense	(1,052,448)	(1,071,387)
Total nonoperating revenues (expenses)	(714,832)	(577,172)
Income (loss) before capital contributions	2,438,169	2,333,019
Capital contributions:		
Capital assets contributed by developers	319,546	535,990
Grant income	1,288,912	1,847,049
Total capital contributions	1,608,458	2,383,039
Change in net position	4,046,627	4,716,058
Net position - beginning of year	58,800,880	54,084,822
Net position - end of year	$ 62,847,507	$ 58,800,880

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Cash received from customers	$ 23,809,548	$ 22,443,498
Cash paid to suppliers for goods and services	(7,201,097)	(5,984,879)
Cash paid to employees for services, including benefits	(8,926,825)	(8,569,227)
Cash paid to City of Hopkinsville for payments in lieu of taxes	(335,751)	(321,621)
Other operating cash received	231,252	333,419
Net cash provided (used) by operating activities	7,577,127	7,901,190
Cash flows from capital and related financing activities		
Acquisition of property, plant and equipment	(11,912,488)	(14,805,815)
Proceeds from disposition of property, plant and equipment	38,533	88,732
Proceeds from grants	1,288,912	2,008,197
Proceeds of capital debt	7,991,441	10,046,603
Principal paid on capital debt	(5,066,599)	(4,932,169)
Interest paid on capital debt	(1,226,164)	(1,232,284)
Net cash provided (used) by capital and related financing activities	(8,886,365)	(8,826,736)
Cash flows from investing activities		
Collection of notes receivable	16,152	16,153
Collection of other receivables	262,867	252,576
Interest earned on cash and cash equivalents	380,949	497,640
Net cash provided (used) by investing activities	659,968	766,369
Net increase (decrease) in cash and cash equivalents	(649,270)	(159,177)
Cash and cash equivalents at beginning of year (includes restricted assets of $2,644,205 and $2,501,038 for 2025 and 2024, respectively)	8,754,420	8,913,597
Cash and cash equivalents at end of year (includes restricted assets of $2,778,179 and $2,644,205 for 2025 and 2024, respectively)	$ 8,105,150	$ 8,754,420

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS (continued)
For the years ended June 30, 2025 and 2024

	2025	2024
Reconciliation of Operating Income to Net Cash from Operating Activities		
Cash flows from operating activities		
Operating income	$ 3,153,001	$ 2,910,191
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	5,670,235	5,325,779
Amortization of deferred revenue - USACE	(143,587)	(143,588)
Pension expense (GASBS No. 68)	(402,131)	(112,002)
OPEB expense (GASBS No. 75)	(647,048)	(407,600)
Changes in assets and liabilities		
(Increase)/decrease in customer receivables	97,086	(244,363)
(Increase)/decrease in inventory	159,934	197,107
(Increase)/decrease in prepaid insurance	(3,844)	11,800
Increase/(decrease) in accounts payable and payable to City for PILOT	(484,422)	462,516
Increase/(decrease) in customer deposits	4,800	2,550
Increase/(decrease) in deferred revenue - fire service collected in advance	120,233	(113,824)
Increase/(decrease) in accrued salaries and compensated absences	52,870	12,624
Net cash provided (used) by operating activities	$ 7,577,127	$ 7,901,190
Noncash Capital and Related Financing and Investing Items		
Construction costs in construction contracts payable	$ 32,614	$ 485,150
Grant income in grant funds receivable	$ -	$ -

See accompanying 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. In September 2019, HWEA commissioned 6.3 miles of 12” natural gas pipeline along the US41 corridor and is now actively providing natural gas service to customers along the corridor. Natural gas for the pipeline is currently supplied by Clarksville Gas.

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 and revenue bond 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. Presentation, Basis of Accounting, and Measurement Focus

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles for state and local governments in the United States of America.

The operations of HWEA are accounted for as a single governmental enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Proprietary fund types use the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. The economic resources measurement focus is used whereby all assets and liabilities (whether current or noncurrent) associated with the activity are reported in the fund’s statement of net position. 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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Presentation, Basis of Accounting, and Measurement Focus, continued

- *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 and debt. 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.

- *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

In December 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 1993, began accounting for the drinking water and clean water systems separately. Beginning July 2014, HWEA also began separately accounting for natural gas transactions. See supplementary information schedules and Note 11 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. Investment income consists of interest income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

d. Cash and Cash Equivalents, Deposits and Investments, continued

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. Both restricted and unrestricted amounts are included on the Statements of Cash Flows.

e. Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding customer accounts. Accounts are considered past due 30 days from the invoice date. 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.

f. Inventories

Inventory is stated at cost. Inventories consist of supplies and parts used in the operation of HWEA’s treatment plants and for the maintenance of sewers, fleet vehicles, and other related equipment. Inventory totaled $456,842 and $616,776 at June 30, 2025 and 2024, respectively.

g. Prepaid Expenses

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

h. Restricted Assets

Any 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. Amounts included in the "Bond and Interest Redemption" account, if any, are used to segregate resources accumulated for debt service payments over the next twelve months.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

h. Restricted Assets, continued

Amounts included in the "Equipment Maintenance and Replacement" accounts, if any, are used to report resources set aside for unusual or extraordinary maintenance, repairs, renewals and/or replacements or extensions, additions and/or improvements. Amounts included in the "Construction" account, if any, are used to report bond proceeds restricted for use in the cost of future expansion and rehabilitation. 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.

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

	2025	2024
Bond and interest redemption fund	$ 463,149	$ 517,275
Equipment maintenance and replacement fund	2,315,030	2,126,930
Total restricted assets	$ 2,778,179	$ 2,644,205

For the years ended June 30, 2025 and 2024, the bond and interest redemption fund includes amounts set aside to meet future bond payments, and the equipment maintenance and replacement fund includes amounts set aside to meet reserve requirements associated with loans with the Kentucky Infrastructure Authority, the total of which is reported as restricted current assets on the Statements of Net Position.

i. Capital Assets

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. Estimated useful lives on depreciable assets are as follows:

Structures, building components, elevated tanks	10 – 50 years
Distribution mains and sewer mains and laterals	10 – 50 years
Services	40 years
Meters and installation	5 – 10 years
Hydrants	50 years
Purification and pumping equipment	5 – 30 years
Natural gas mains	40 – 50 years
Natural gas meters	5 – 10 years
Transportation equipment	5 – 10 years
General equipment	5 – 20 years
Office furniture, fixtures, equipment	5 – 10 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

i. Capital Assets, continued

Costs incurred for capital construction and acquisition are carried in construction in progress until disposition or completion of the related projects. The major component of construction in progress at June 30, 2025, was related to the US-41A 24” Water Main Extension Contract B. The major component of construction in progress at June 30, 2024, was related to the rehabilitation of the Hopkinsville Clean Water Treatment Plant. Other less significant drinking water and clean water projects were also included in construction in progress. Costs related to projects not pursued are expensed, while costs relating to completed projects are capitalized as property, plant and equipment.

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manner of duration of use of a capital asset, and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No material impairment losses were recognized in fiscal year 2025 or 2024.

j. 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.

k. Noncurrent Liabilities

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Noncurrent Liabilities, continued

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. Bonds outstanding, which have been refunded and economically defeased, are not included in long-term debt, and the related assets are not included in investments. GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, requires that any loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, is deferred and amortized as a component of interest expense over the shorter of either 1) the original life of the refunded debt or 2) the life of the refunding debt.

l. 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. Capital contributions for the years ended June 30, 2025, and 2024 totaled $1,608,458 and $2,383,039, respectively. Of the total capital contributions, capital assets contributed by developers totaled $319,546 and $535,990, and grant income totaled $1,288,912 and $1,847,049 for the years ended June 30, 2025, and 2024, respectively. In addition to these capital contributions, governmental grants in aid of construction totaled $28,258 and $391,295 for the years ended June 30, 2025, and 2024, respectively, and were included as a reduction in the cost of construction.

m. 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 reductions of the net pension and the net OPEB liabilities in a subsequent year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

m. Deferred Outflows and Inflows of Resources, continued

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 four items that qualify for reporting in this category. The first item is deferred revenue associated with customer payments collected in advance for fire service, which is only billed twice a year. The second 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. The other two items are deferred inflows associated with its pension plan and its OPEB plan that will be recognized in pension and OPEB expense in future years.

n. Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital and represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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.

o. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and net OPEB assets/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.

p. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

q. Accounting Pronouncements

Adoption of New Accounting Pronouncements

Effective July 1, 2024, HWEA adopted the following GASB Statements:

- GASB Statement No. 101, *Compensated Absences*: The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

- GASB Statement No. 102, *Certain Risk Disclosures*: The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

Adoption of GASB Statements No. 101 and 102 did not have a material impact on HWEA's financial reporting.

Recent Accounting Pronouncements

GASB has issued additional guidance that is not yet effective. HWEA is currently reviewing the provisions of the following GASB Statements to determine the impact of implementation in future periods.

- GASB Statement No. 103, *Financial Reporting Model Improvements* – effective for fiscal year 2026

- GASB Statement No. 104, *Disclosure of Certain Capital Assets* – effective for fiscal year 2026

r. Deficit Unrestricted Net Position

HWEA had deficit unrestricted net position at June 30, 2025, and 2024, totaling $9,452,944 and $9,575,331, respectively. The deficit in unrestricted net position was caused primarily by the initial accrual of both the net pension liability and the net OPEB liability. HWEA expects results from future operations to fund the deficit.

2. CASH 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 reconciliation of cash, cash equivalents and investments as shown on the Statement of Net Position for HWEA is as follows at June 30:

	2025	2024
Cash and cash equivalents		
Unrestricted	$5,326,971	$ 6,110,215
Restricted - current	2,778,179	2,644,205
Total cash and cash equivalents	8,105,150	8,754,420
Investments		
Unrestricted	-	-
Restricted - current	-	-
Total investments	-	-
Total Cash, Cash Equivalents and Investments	$8,105,150	$ 8,754,420

a. Cash Deposits

Custodial Credit Risk: Custodial credit risk for cash 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. The collateral provided by financial institutions is considered adequate to cover all balances in excess of limits set forth by the Federal Deposit Insurance Corporation; therefore, as of June 30, 2025, and 2024, none of HWEA's deposited funds of cash and cash equivalents 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, 2025, and 2024, HWEA had no investments; therefore, there were no investments that were exposed to custodial credit risk.

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.

2. CASH 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.

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:

	2025	2024
Customer accounts receivable	$1,533,465	$ 1,718,060
Allowance for uncollectible accounts	-	-
Miscellaneous receivables	221,996	134,487
Total customer receivables	$1,755,461	$ 1,852,547

Total customer receivables at June 30, 2023, was $1,608,184.

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:

	2025	2024
Accounts charged off in current period	$ 202,118	$ 76,844
Recovery of accounts previously charged off	(1,404)	(14,178)
Net bad debts	$ 200,714	$ 62,666

3. RECEIVABLES, continued

There were no grant funds receivable at June 30, 2025, or 2024.

HWEA 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 2027. The balance of this receivable was $32,304 and $48,456 at June 30, 2025, and 2024, respectively.

During the year ended June 30, 2015, HWEA entered into an agreement with USACE to design and construct a water line to serve the Fort Campbell Army Post with a redundant connection for domestic water. This construction project was to be financed with a loan from a local bank; but, once complete, HWEA was to be reimbursed for the full amount of the project over a ten-year period by USACE. As a result of this arrangement, HWEA recorded a receivable (with deferred revenue to offset the receivable) for the amount of funds drawn on the loan. Upon reimbursement by USACE, HWEA would begin to write down the receivable and amortize to revenue the deferred revenue 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 4.000%, due August 2027. The balance of this other receivable was $582,543 and $845,410 at June 30, 2025, and 2024, 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, 2025, and 2024, $143,587 and $143,588, respectively, was amortized to other operating revenue. The balance of this deferred revenue account was $3,738,348 and $3,881,935 at June 30, 2025, and 2024, respectively.

4. INVENTORY

Inventory as of June 30, 2025, and 2024, which consisted of chemicals, supplies, and parts used in the operation of HWEA’s treatment plants and for the maintenance of sewers, fleet vehicles, and other related equipment, totaled $456,842 and $616,776, respectively.

5. CAPITAL ASSETS

A summary of capital assets as of June 30, 2025, is as follows:

	Balance July 1, 2024	Transfers In/ Additions	Transfers Out/ Retirements	Balance June 30, 2025
Capital Assets Not Being Depreciated:				
Land	$ 1,571,840	$ -	$ -	$ 1,571,840
Construction in progress	47,228,285	9,282,738	54,111,015	2,400,008
Capital Assets Being Depreciated:				
Structures and improvements	188,461,616	56,059,622	12,581,440	231,939,798
Equipment	8,703,904	596,912	56,442	9,244,374
Vehicles	2,231,549	122,077	49,453	2,304,173
Less Accumulated Depreciation:				
Structures and improvements	94,893,472	5,007,617	12,579,958	87,321,131
Equipment	6,315,051	465,747	40,810	6,739,988
Vehicles	1,368,096	196,871	49,453	1,515,514
Total	$145,620,575	$ 60,391,114	$54,128,129	$151,883,560

A summary of capital assets as of June 30, 2024, is as follows:

	Balance July 1, 2023	Transfers In/ Additions	Transfers Out/ Retirements	Balance June 30, 2024
Capital Assets Not Being Depreciated:				
Land	$ 1,571,840	$ -	$ -	$ 1,571,840
Construction in progress	37,105,735	11,122,792	1,000,242	47,228,285
Capital Assets Being Depreciated:				
Structures and improvements	185,056,963	3,450,983	46,330	188,461,616
Equipment	7,877,710	1,214,502	388,308	8,703,904
Vehicles	1,690,287	615,037	73,775	2,231,549
Less Accumulated Depreciation:				
Structures and improvements	90,150,069	4,770,041	26,638	94,893,472
Equipment	6,049,640	411,591	146,180	6,315,051
Vehicles	1,297,294	144,147	73,345	1,368,096
Total	$135,805,532	$ 11,077,535	$ 1,262,492	$145,620,575

Depreciation expense for the years ended June 30, 2025, and 2024 was $5,670,235 and $5,325,779, respectively.

6. NONCURRENT LIABILITIES

Noncurrent liabilities are reported net of premiums and discounts. Premiums and discounts are amortized over the term of the debt to maturity.

Noncurrent liabilities at June 30 are as follows:

	Rate	2025	2024
State Revolving Fund Loans:			
B95-02 – Water – Maturing 2026	1.900%	$ 216,337	$ 428,621
A03-05 – Sewer – Maturing 2026	1.000%	129,433	386,370
A04-05 – Sewer – Maturing 2027	1.000%	270,476	403,704
F02-04 – Water – Maturing 2028	1.000%	246,729	327,344
F06-02 – Water – Maturing 2028	3.000%	764,011	1,003,886
F08-06 – Water – Maturing 2032	1.000%	3,507,285	3,955,409
A11-07 – Sewer – Maturing 2033	2.000%	216,819	241,574
A09-19 – Sewer – Maturing 2034	2.000%	3,739,912	4,115,606
A11-09 – Sewer – Maturing 2036	2.000%	4,245,404	4,587,234
A11-08 – Sewer – Maturing 2036	2.000%	6,877,293	7,404,234
F13-020 – Water – Maturing 2040	1.750%	2,895,668	3,056,983
A19-003 – Sewer **	0.500%	44,979,410	39,371,523
F16-001 – Water **	1.750%	7,670,040	5,286,486
Total State Revolving Fund Loans		75,758,817	70,568,974

** Loan is partially drawn; maturity not yet established

	Rate	2025	2024
Payable to City of Hopkinsville:			
Revenue Bond:			
Series 2010B-Maturing 2030	3.200% to 4.400%	1,044,000	1,249,000
General Obligation Bonds:			
Series 2013B-Maturing 2034	2.000% to 4.500%	1,890,000	2,060,000
Series 2014B-Maturing 2038	1.500% to 3.625%	1,220,000	1,295,000
Series 2014C-Maturing 2029	1.100% to 3.250%	385,000	515,000
Series 2015A-Maturing 2026	4.000%	1,750,000	3,435,000
Total General Obligation Bonds		5,245,000	7,305,000
Total Payable to City of Hopkinsville		$ 6,289,000	$ 8,554,000

6. NONCURRENT LIABILITIES, continued

	Rate	2025	2024
Net Pension Liability		$ 10,545,760	$ 10,805,978
Net OPEB Liability		-	-
Compensated Absences		699,250	701,094
Total Noncurrent Liabilities		93,292,827	90,630,046
Less: Maturities due within one year		(5,492,919)	(5,425,405)
Unamortized bond (discount) / premium		124,332	286,687
Total Noncurrent Liabilities, Net		$87,924,240	$ 85,491,328

During the year ended June 30, 2025, the following changes occurred in noncurrent liabilities:

	Principal Outstanding July 1, 2024	Additions	Reductions	Principal Outstanding June 30, 2025	Due Within One Year
Compensated absences	$ 701,094	$ 356,962	$ (358,806)	$ 699,250	$ 458,539*
State Revolving Fund Loans	70,568,974	7,991,442	(2,801,599)	75,758,817	2,720,380
Payable to City of Hopkinsville:					
Revenue bond – 2010B	1,249,000	-	(205,000)	1,044,000	214,000
Gen. obligation bond – 2013B	2,060,000	-	(170,000)	1,890,000	180,000
Gen. obligation bond – 2014B	1,295,000	-	(75,000)	1,220,000	75,000
Gen. obligation bond – 2014C	515,000	-	(130,000)	385,000	95,000
Gen. obligation bond – 2015A	3,435,000	-	(1,685,000)	1,750,000	1,750,000
Net pension liability	10,805,978	-	(260,218)	10,545,760	-
Net OPEB liability	-	-	-	-	-
Unamortized bond premium	289,703	-	(162,871)	126,832	-
Unamortized bond discount	(3,016)	-	516	(2,500)	-
Total	$ 90,916,733	$ 8,348,404	$ (5,847,978)	$ 93,417,159	$ 5,492,919

*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.

6. NONCURRENT LIABILITIES, continued

During the year ended June 30, 2024, the following changes occurred in noncurrent liabilities:

	Principal Outstanding July 1, 2023	Additions	Reductions	Principal Outstanding June 30, 2024	Due Within One Year
Compensated absences	$ 700,492	$ 371,767	$ (371,165)	$ 701,094	$ 358,806*
State Revolving Fund Loans	63,276,040	10,046,603	(2,753,669)	70,568,974	2,801,599
Payable to City of Hopkinsville:					
Revenue bond – 2010B	1,447,500	-	(198,500)	1,249,000	205,000
Gen. obligation bond – 2013B	2,225,000	-	(165,000)	2,060,000	170,000
Gen. obligation bond – 2014B	1,365,000	-	(70,000)	1,295,000	75,000
Gen. obligation bond – 2014C	645,000	-	(130,000)	515,000	130,000
Gen. obligation bond – 2015A	5,050,000	-	(1,615,000)	3,435,000	1,685,000
Net pension liability	12,224,768	-	(1,418,790)	10,805,978	-
Net OPEB liability	3,336,758	-	(3,336,758)	-	-
Unamortized bond premium	452,573	-	(162,870)	289,703	-
Unamortized bond discount	(3,532)	-	516	(3,016)	-
Total	$ 90,719,599	$10,418,370	$(10,221,236)	$ 90,916,733	$ 5,425,405

*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.

State Revolving Fund Loans:

HWEA utilizes funding provided through the Kentucky Infrastructure Authority's (KIA) State Revolving Fund (SRF). The SRF financing program provides low interest loans for infrastructure projects that are considered a priority based on the water pollution control criteria outlined in the Clean Water Act. HWEA's SRF loans are considered direct placement debt and carry interest rates ranging between 0.500% and 3.000%. For construction projects that have been completed and the related SRF loan has been closed, principal and interest payments are payable semiannually at the fixed rate stipulated in the underlying assistance agreement. For construction projects that are not yet complete and the related SRF loan is still open, interest is payable semiannually, commencing after funds are first drawn on the SRF loan, at the fixed rate stipulated in the underlying assistance agreement. Final maturities on open SRF loans are established after the project is placed in operation.

6. NONCURRENT LIABILITIES, continued

State Revolving Fund Loans, continued:

Under the assistance agreements entered into with the KIA, in the event of default by HWEA, the 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 the 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. 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 to its debt obligations.

Proceeds from the SRF loans have been used for the expansion and upgrade of the Clean Water Treatment System (Fund A), a new Drinking 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 SRF loans are as follows as of June 30, 2025:

Fiscal Year Ending June 30	Principal	Interest	Total
2026	$ 2,720,380	$ 408,499	$ 3,128,879
2027	2,417,693	361,684	2,779,377
2028	2,324,363	318,074	2,642,437
2029	2,013,707	276,841	2,290,548
2030	2,049,048	241,500	2,290,548
2031-2035	9,051,875	669,405	9,721,280
2036-2040	2,426,175	84,853	2,511,028
Thereafter	52,755,576	931	52,756,507
Total	$75,758,817	$ 2,361,787	$ 78,120,604

As of June 30, 2025, HWEA has pledged future revenues to repay $75,758,817 in total SRF loans, but they are subordinated to the existing revenue bonds. Principal and interest on these loans are payable through 2041, solely from net revenues. Annual principal and interest on these loans are expected to require approximately 13.06% of such net revenues (based on principal and interest payments for the year ending June 30, 2026, as a percentage of net system revenues for the year ended June 30, 2025, which totaled $23,962,268). Principal and interest paid for the year ended June 30, 2025, was $3,690,262. As of June 30, 2025, pledged future revenues totaled $78,120,604, which was the amount of the remaining principal and interest payments on these SRF loans.

6. NONCURRENT LIABILITIES, continued

State Revolving Fund Loans, continued:

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, 2025 and 2024, HWEA has set aside $2,315,030 and $2,126,930, respectively, to meet these reserve requirements, which are reported as restricted current assets on the Statements of Net Position.

Payable to City of Hopkinsville – Revenue Bond:

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. This obligation matures in 2030. Interest rates range from 3.200% to 4.400%. 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, 2025:

Fiscal Year Ending June 30	Principal	Interest	Total
2026	$ 214,000	$ 45,127	$ 259,127
2027	225,000	36,139	261,139
2028	235,000	26,540	261,540
2029	245,000	16,280	261,280
2030	125,000	5,500	130,500
Total	$ 1,044,000	$ 129,586	$ 1,173,586

As of June 30, 2025, HWEA has pledged future revenues to repay $1,044,000 in total revenue bonds. Principal and interest on these bonds are payable through 2030, solely from net revenues. Annual principal and interest on the bonds are expected to require approximately 1.08% of such net revenues (based on principal and interest payments for the year ending June 30, 2026, as a percentage of net system revenues for the year ended June 30, 2025, which totaled $23,962,268). Principal and interest paid for the year ended June 30, 2025, was $258,737. As of June 30, 2025, pledged future revenues totaled $1,173,586, 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.

6. NONCURRENT LIABILITIES, continued

Payable to City of Hopkinsville – General Obligation Bonds:

During the year ended June 30, 2014, the City of Hopkinsville, on behalf of HWEA, issued general obligation bonds (Series 2013B) for the purpose of constructing a 2MG water tank and water mains along Eagle Way Bypass and US41A and to pay other allowable expenditures including issuance costs. This obligation matures in 2034 with interest rates ranging from 2.000% to 4.500%. 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 3.625%. 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 1.100% to 3.250%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

During the year ended June 30, 2015, the City of Hopkinsville, on behalf of HWEA, issued tax-exempt general obligation bonds (Series 2015A) to advance refund the outstanding 2005A revenue bonds, the proceeds of which financed the acquisition, construction, equipping, and installation of a 36-inch raw water line from Lake Barkley to the Moss Raw Water Treatment Plant and appurtenances, including a raw water intake. The Series 2015A general obligation bonds were also issued to pay other allowable expenditures including issuance costs. This advance refunding took place to achieve debt service savings. This obligation matures in 2026 with an interest rate of 4.000%. Interest is due in semi-annual installments. The obligation is secured by the full taxing authority of the City of Hopkinsville.

6. NONCURRENT LIABILITIES, continued

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

Annual debt service requirements projected to maturity for amounts payable to the City of Hopkinsville for general obligation bonds are as follows as of June 30, 2025:

Fiscal Year Ending June 30	Principal	Interest	Total
2026	$ 2,100,000	$ 162,094	$ 2,262,094
2027	345,000	115,346	460,346
2028	375,000	103,609	478,609
2029	390,000	90,154	480,154
2030	295,000	75,885	370,885
2031-2035	1,410,000	189,734	1,599,734
2036-2038	330,000	18,309	348,309
Total	$ 5,245,000	$ 755,131	$ 6,000,131

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, 2025, and 2024, 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, 2025, and 2024 are shown on the statement of net position as deferred refunding costs under deferred outflows of resources and amount to $38,104 and $102,854, respectively. Amortization on these refundings was $64,749 for each of the years ended June 30, 2025, and 2024.

7. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description:

HWEA participates in the County Employees Retirement System (CERS), which consists of two plans: Non-Hazardous and Hazardous (although HWEA has no employees under the Hazardous plan). Each plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA), a component unit of the Commonwealth of Kentucky, under the provision of Kentucky Revised Statute Section 61.645.

Under the provisions of Kentucky Revised Statute Sections 78.782 and 61.645, the Board of Trustees of KPPA administers Kentucky Employees Retirement System (KERS), CERS, and State Police Retirement System (SPRS). Although the assets of the funds are invested as a whole, each plan's assets are accounted for separately, invested according to plan-specific asset allocation goals, and are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 78.630, 61.570, and 16.555. CERS and KERS are cost-sharing multiple-employer defined benefit plans that cover all regular full-time members employed in non-hazardous and hazardous positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate.

KPPA 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 Public Pension Authority, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Basis of Accounting:

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, and pension expense, information about 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 following information summarizes the major pension benefit provisions of CERS (nonhazardous). It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

7. DEFINED BENEFIT PENSION PLAN, continued

General Information about the Pension Plan, continued

Pension Benefits Provided, continued:

The plan provides for retirement, disability, and death benefits to plan members. Employees are vested in the plan after five years of service. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KPPA benefits. However, the COLA is not a guaranteed benefit, and the General Assembly has the authority to reduce, increase, suspend, or eliminate the COLA in the future. Prior to July 1, 2009, COLAs were provided annually, not to exceed 5.00% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

For retirement purposes, members are grouped into three tiers, based on hire date, and may qualify for either a reduced benefit or an unreduced benefit:

Tier 1	Participation date	Before September 1, 2008
	Unreduced benefit	27 years' service or 65 years old
	Reduced benefit	At least 5 years' service and 55 years old At least 25 years' service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced benefit	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced benefit	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced benefit	At least 5 years' service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced benefit	Not available

Benefits are paid based on a formula that includes three variables: 1) the member's final compensation; 2) benefit factors, which are set by statute and vary depending upon the type of service, amount of service, participation date, and retirement date; and 3) the member's years of service.

The beneficiary of a retired member receiving a monthly benefit based on at least 48 months of combined service is entitled to one $5,000 death benefit from KPPA upon the retired member's death. Senate Bill 169, passed during the 2021 legislative session, increased the disability benefits for certain qualifying members who become "totally and permanently disabled" in the line of duty or as a result of a duty-related disability.

7. DEFINED BENEFIT PENSION PLAN, continued

General Information about the Pension Plan, continued

Pension Contributions:

Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Tier 1 plan members who began participating prior to September 1, 2008, are required to contribute 5.00% (nonhazardous) of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2 plan members who began participating on or after September 1, 2008 and before January 1, 2014 are required to contribute a total of 6.00% (nonhazardous) of their annual creditable compensation, with 5.00% credited to the member's account and 1.00% deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund. These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1.00% contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Nonhazardous members contribute 6.00% of their monthly creditable compensation (5.00% is deposited into their account and 1.00% is deposited into an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund, which is not refundable). Nonhazardous Tier 3 members are also credited with an employer pay credit in the amount of 4.00% of the member's monthly creditable compensation. The employer pay credit amount is deducted from the total employer contribution rate paid on the member's monthly creditable compensation.

HWEA is required to contribute at an actuarially determined rate set by statute unless altered by legislation enacted by the Kentucky General Assembly. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the KPPA Board based on an annual valuation last preceding July 1 of a new biennium. The KPPA 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 KPPA Board.

7. DEFINED BENEFIT PENSION PLAN, continued

General Information about the Pension Plan, continued

Pension Contributions, continued:

For the fiscal years ended June 30, 2025, and 2024, participating employers contributed 19.71% (19.71% allocated to pension and 0.00% allocated to OPEB) and 23.34% (23.34% allocated to pension and 0.00% allocated to OPEB), respectively, of each nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KPPA are financed through employer contributions and investment earnings.

HWEA met 100.00% of the contribution funding requirements to the pension fund for the years ended June 30, 2025, and 2024. HWEA's contributions to the pension fund (excluding the OPEB portion) were $1,172,059 and $1,317,762 for the years ended June 30, 2025, and 2024, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities:

For HWEA's fiscal year ended June 30, 2025, the total pension liability was rolled forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024, using generally accepted actuarial principles.

For HWEA's fiscal year ended June 30, 2024, the total pension liability was rolled forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

At June 30, 2025, and 2024, HWEA's proportionate share of the net pension liability for CERS was $10,545,760 and $10,805,978, respectively, and was reported on the statements of net position as a noncurrent liability. The net pension liabilities for June 30, 2025, and 2024 were measured as of June 30, 2024, and 2023, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023, and 2022, respectively. The total pension liability was rolled-forward from the valuation date to the measurement date using generally accepted actuarial principles. HWEA's proportion of the net pension liability was based on HWEA's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2025, and 2024, HWEA's proportionate share of the nonhazardous net pension liability was 0.176338% and 0.168409%, respectively.

Pension Expense:

For the June 30, 2024, and 2023 measurement dates, HWEA was allocated $744,271 and $1,190,043, respectively, in net CERS pension expense.

7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred Outflows of Resources and Deferred Inflows of Resources - Pension:

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 increase pension expense they are labeled as deferred outflows.

Differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees who are provided with pensions through the pension plan (active employees and inactive members) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on pension plan investments should be recognized in pension expense using a systematic and rational method over a closed five-year period. For this purpose, deferred outflows and inflows of resources are recognized in the pension expense as a level dollar amount over the closed period.

At June 30, 2025, HWEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	$ 510,434	$ -
Differences between projected and actual earnings on pension plan investments	-	678,035
Effects of change in assumptions	-	476,461
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	298,042	24,040
	808,476	1,178,536
HWEA contributions subsequent to the measurement date	1,172,059	-
Total	$1,980,535	$1,178,536

7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

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

The $1,172,059 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in HWEA's fiscal year ending June 30, 2026. The remainder of deferred outflows and deferred inflows of resources related to pensions will be amortized as follows (any positive amounts will increase pension expense while any negative amounts will decrease pension expense) for the future measurement periods:

Year ending June 30:	
2025	$ (268,253)
2026	309,944
2027	(260,645)
2028	(151,106)
2029	-
Thereafter	-
	$ (370,060)

At June 30, 2024, HWEA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual liability experience	$ 559,405	$ 29,363
Differences between projected and actual earnings on pension plan investments	-	147,399
Effects of change in assumptions	-	990,375
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	41,024	90,968
	600,429	1,258,105
HWEA contributions subsequent to the measurement date	1,317,762	-
Total	$1,918,191	$1,258,105

7. DEFINED BENEFIT PENSION PLAN, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

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

The $1,317,762 reported as deferred outflows of resources related to pensions resulting from HWEA contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in HWEA's fiscal year ending June 30, 2025. The remainder of deferred outflows and deferred inflows of resources related to pensions will be amortized as follows (any positive amounts will increase pension expense while any negative amounts will decrease pension expense) for the future measurement periods:

Year ending June 30:	
2024	$ (365,326)
2025	(428,972)
2026	241,233
2027	(104,611)
2028	-
Thereafter	-
	$ (657,676)

Actuarial Assumptions and Other Inputs – Pension

Actuarial Assumptions:

For HWEA's fiscal year ended June 30, 2025, the total pension liability, net pension liability, and sensitivity information were based on an actuarial valuation date of June 30, 2023. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2024, using generally accepted actuarial principles.

For HWEA's fiscal year ended June 30, 2024, the total pension liability, net pension liability, and sensitivity information were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2023, using generally accepted actuarial principles.

7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Actuarial Assumptions, continued:

The following actuarial methods and assumptions (for CERS non-hazardous) were used to determine the actuarially determined contributions effective for the plan's fiscal year ended June 30, 2024:

Valuation Date:	June 30, 2022
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level percent of pay
Amortization Period:	30-year closed period at June 30, 2019 (*gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases)*
Payroll Growth Rate:	2.00%
Investment Return:	6.50%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-in Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

The following actuarial methods and assumptions (for CERS non-hazardous) were used to determine the actuarially determined contributions effective for the plan's fiscal year ended June 30, 2023:

Valuation Date:	June 30, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level percent of pay
Amortization Period:	30-years closed period at June 30, 2019 (*gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases)*
Payroll Growth Rate:	2.00%

7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Actuarial Assumptions, continued:

Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-in Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

Discount Rate Assumptions:

a. Discount Rate: A single discount rate of 6.50% was used for both the non-hazardous and hazardous system to measure the total pension liability for the June 30, 2024, and 2023 measurement dates, respectively. The single discount rates were based on the expected rate of return on pension plan investments for each plan.

b. Projected Cash Flows: The projection of cash flows used to determine the single discount rate includes an assumption regarding actual employer contributions made each future year. Future contributions are projected, assuming that each participating employer contributes the actuarially determined employer contribution rate each future year calculated in accordance with the current funding policy. The assumed future employer contributions reflect the provisions of House Bill 362, passed during the 2018 legislative session, which limits the increase to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

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 rates 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.

7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Discount Rate Assumptions, continued:

e. Periods of Projected Benefit Payments: Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each plan.

f. Assumed Asset Allocations: For the June 30, 2024, measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity:		
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income:		
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected:		
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Expected Real Return	100.00%	4.69%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		7.19%

7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Discount Rate Assumptions, continued:

f. Assumed Asset Allocations, continued: For the June 30, 2023, measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity:		
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income:		
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected:		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		8.25%

g. Sensitivity Analysis: For the June 30, 2024 measurement date, the following presents HWEA's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what HWEA's proportionate share of the net pension liability (NPL) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

Nonhazardous:	1% Decrease	Current Discount Rate	1% Increase
Discount rate	5.50%	6.50%	7.50%
HWEA's NPL	$13,595,207	$10,545,760	$8,015,522

7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Assumptions and Other Inputs – Pension, continued

Discount Rate Assumptions, continued:

g. Sensitivity Analysis, continued: For the June 30, 2023 measurement date, the following presents HWEA's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what HWEA's proportionate share of the net pension liability (NPL) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

Nonhazardous:	1% Decrease	Current Discount Rate	1% Increase
Discount rate	5.50%	6.50%	7.50%
HWEA's NPL	$13,643,200	$10,805,978	$8,448,140

Other Information about the Pension Plan

Payables to the Pension Plan:

At June 30, 2025, and 2024 HWEA reported no payables for outstanding contributions to the pension plan for the years then ended.

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Public Pensions Authority Annual Comprehensive Financial Report at www.kyret.ky.gov.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description:

HWEA participates in the County Employees Retirement System (CERS), which consists of two plans: Non-Hazardous and Hazardous (although HWEA has no employees under the Hazardous plan). Each plan is a cost-sharing, multiple-employer Other Post-Employment Benefits (OPEB) plan administered by the Kentucky Public Pensions Authority (KPPA), a component unit of the Commonwealth of Kentucky, under the provision of Kentucky Revised Statute 61.645.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

General Information about the OPEB Plan, continued

Plan Description, continued:

Under the provisions of Kentucky Revised Statute Sections 78.782 and 61.645, the Board of Trustees of KPPA administers Kentucky Employees Retirement System (KERS), CERS, and State Police Retirement System (SPRS). Although the assets of the funds are invested as a whole, each plan's assets are accounted for separately, invested according to plan-specific asset allocation goals, and are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs, in accordance with the provisions of Kentucky Revised Statute Sections 78.630, 61.570, and 16.555. CERS and KERS are cost-sharing multiple-employer defined benefit plans that cover all regular full-time members employed in non-hazardous and hazardous positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plans provide health insurance benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

KPPA 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 Public Pension Authority, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Basis of Accounting:

For purposes of measuring the net other post-employment benefits plan (OPEB) asset/liability, deferred outflow of resources and deferred inflow of resources related to OPEB, and OPEB expense, information about 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. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB asset/liability.

OPEB Benefits Provided:

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

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

General Information about the OPEB Plan, continued

OPEB Benefits Provided, continued:

Under the provisions of Kentucky Revised Statute Section 61.701, the KPPA Board also administers the KRS Insurance Fund. The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS, KERS, and SPRS. The assets of the Insurance Fund are segregated by plan. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. KPPA submits the premium payments to DEI and Humana. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of benefit paid by the Insurance Fund is based on years of service. For members whose participation began before July 1, 2003, a percentage of the contribution rate is paid based on years of service with 100% of the contribution rate being paid with 20 years of service. Since the passage of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous members whose participation begins on or after July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. House Bill 1 (2008 Kentucky General Assembly) changed the minimum vesting requirement for participation in the health insurance plan to 15 years for members whose participation began on or after September 1, 2008. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. The Insurance Plan pays 100% of the contribution rate for hospital and medical insurance premiums for the spouse and dependent of members who die as a direct result of an act in the line of duty or from a duty-related injury.

OPEB Contributions:

Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly. Tier 2 and Tier 3 members of the CERS plan contribute 1.00% of creditable compensation to an account created for the payment of health insurance benefits. Tier 1 members aren’t currently required to contribute.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

General Information about the OPEB Plan, continued

OPEB Contributions, continued:

HWEA is required to contribute at an actuarially determined rate set by statute unless altered by legislation enacted by the Kentucky General Assembly. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the KPPA Board based on an annual valuation last preceding July 1 of a new biennium. The KPPA 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 KPPA Board.

For the fiscal years ended June 30, 2025, and 2024, participating employers contributed 19.71% (19.71% allocated to pension and 0.00% allocated to OPEB) and 23.34% (23.34% allocated to pension and 0.00% allocated to OPEB), respectively, of each nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KPPA are financed through employer contributions and investment earnings.

HWEA met 100.00% of the contribution funding requirements to the OPEB fund for the years ended June 30, 2025, and 2024. HWEA's contributions to OPEB (excluding the pension portion) were $0 for each of the years ending June 30, 2025 and 2024.

OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Assets/Liabilities:

For HWEA's fiscal year ended June 30, 2025, the total OPEB asset/liability was rolled forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024, using generally accepted actuarial principles.

For HWEA's fiscal year ended June 30, 2024, the total OPEB asset/liability was rolled forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, continued

OPEB Assets/Liabilities, continued:

At June 30, 2025, and 2024, HWEA's proportionate share of the net OPEB (asset)/liability was ($305,331) and ($232,508), respectively, and was reported on the statements of net position as a noncurrent asset. The net OPEB asset for June 30, 2025, and 2024 was measured as of June 30, 2024, and 2023, respectively, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2023, and 2022, respectively. The total OPEB asset was rolled-forward from the valuation date to the measurement date using generally accepted actuarial principles. HWEA's proportion of the net OPEB asset was based on HWEA's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2025, and 2024, HWEA's proportionate share of the nonhazardous net OPEB asset was 0.176512% and 0.168403%, respectively.

OPEB Expense (Income):

For the June 30, 2024, and 2023 measurement dates, HWEA was allocated ($564,008) and ($334,085) in net OPEB expense (income), respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources - OPEB:

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.

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees who are provided with OPEB through the OPEB plan (active employees and inactive members) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five-year period. For this purpose, deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, continued

Deferred Outflows of Resources and Deferred Inflows of Resources – OPEB, continued

At June 30, 2025, HWEA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability experience	$ 169,394	$ 2,402,351
Difference between projected and actual earnings on OPEB plan investments	-	278,632
Change in assumptions	276,666	215,443
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	180,240	38,048
	626,300	2,934,474
HWEA contributions subsequent to the measurement date	-	-
Total	$ 626,300	$ 2,934,474

Deferred outflows of resources related to OPEB resulting from HWEA's contributions subsequent to the measurement date will be recognized as a reduction of net OPEB asset/liability in HWEA's fiscal year ending June 30, 2026; however, there were no such subsequent contributions at June 30, 2025. The remainder of deferred outflows and deferred inflows of resources related to OPEB will be amortized as follows (any positive amount will increase OPEB expense while any negative amounts will decrease OEPB expense) for the future measurement periods:

Year ending June 30:	
2025	$ (892,553)
2026	(753,979)
2027	(649,864)
2028	(11,778)
2029	-
Thereafter	-
	$(2,308,174)

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, continued

Deferred Outflows of Resources and Deferred Inflows of Resources – OPEB, continued

At June 30, 2024, HWEA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability experience	$ 162,094	$ 3,301,388
Difference between projected and actual earnings on OPEB plan investments	-	53,961
Change in assumptions	457,560	318,874
Changes in proportion and differences between employer contributions and proportionate share of plan contributions	233,117	60,947
	852,771	3,735,170
HWEA contributions subsequent to the measurement date	-	-
Total	$ 852,771	$ 3,735,170

Deferred outflows of resources related to OPEB resulting from HWEA's contributions subsequent to the measurement date will be recognized as a reduction of net OPEB asset/liability in HWEA's fiscal year ending June 30, 2025; however, there were no such subsequent contributions at June 30, 2024. The remainder of deferred outflows and deferred inflows of resources related to OPEB will be amortized as follows (any positive amount will increase OPEB expense while any negative amounts will decrease OEPB expense) for the future measurement periods:

Year ending June 30:	
2024	$ (632,114)
2025	(868,885)
2026	(740,615)
2027	(640,785)
2028	-
Thereafter	-
	$(2,882,399)

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB

Actuarial Assumptions:

For HWEA's fiscal year ended June 30, 2025, the total OPEB asset/liability, net OPEB asset/liability, and sensitivity information were based on an actuarial valuation date of June 30, 2023. The total OPEB asset/liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2024, using generally accepted actuarial principles.

For HWEA's fiscal year ended June 30, 2024, the total OPEB asset/liability, net OPEB asset/liability, and sensitivity information were based on an actuarial valuation date of June 30, 2022. The total OPEB asset/liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2023, using generally accepted actuarial principles.

The following actuarial methods and assumptions (for CERS non-hazardous) were used to determine the actuarially determined contributions effective for the plan's fiscal year ended June 30, 2024:

Valuation Date:	June 30, 2022
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level percent of pay
Amortization Period:	30-year, closed period at June 30, 2019 (g*ains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases)*
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Healthcare Trend Rates (Pre-65):	Initial trend starting at 6.20% on January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2023 premiums were known at the time of the valuation and were incorporated into the liability measurement.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Actuarial Assumptions, continued:

Healthcare Trend Rates (Post-65):	Initial trend starting at 9.00% on January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2023 premiums were known at the time of the valuation and were incorporated into the liability measurement.

The following actuarial methods and assumptions (for CERS non-hazardous) were used to determine the actuarially determined contributions effective for the plan's fiscal year ended June 30, 2023:

Valuation Date:	June 30, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization Method:	Level percent of pay
Amortization Period:	30-year, closed period at June 30, 2019 (g*ains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases)*
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
Healthcare Trend Rates (Pre-65):	Initial trend starting at 6.30% on January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Actuarial Assumptions, continued:

Healthcare Trend Rates (Post-65):	Initial trend starting at 6.30% on January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

Discount Rate Assumptions:

a. Discount Rate: The discount rate used to measure the total OPEB asset/liability at the June 30, 2024, measurement date was 5.99% for non-hazardous plans, which increased from the prior year rate of 5.93%. The discount rates for each year were based on the expected rate of return on OPEB plan investments of 6.25% for the June 30, 2024, and June 30, 2023, measurement dates.

b. Projected Cash Flows: The projection of cash flows used to determine the single discount rate includes an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

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 rates of return were 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 3.97%, as reported in Fidelity Index's *20-Year Municipal GO AA Index* as of June 30, 2024. The discount rate determination used a municipal bond rate of 3.86%, as reported in Fidelity Index's *20-Year Municipal GO AA Index* as of June 30, 2023.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions, continued:

e. Period of Projected Benefit Payments: Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions are projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not included in the calculation of the actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the Plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

f. Assumed Asset Allocations: For the June 30, 2024, measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity:		
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income:		
Core Fixed Income	10.00%	2.85%
Specialty Credit	10.00%	3.82%
Cash	0.00%	1.70%
Inflation Protected:		
Real Estate	7.00%	4.90%
Real Return	13.00%	5.35%
Expected Real Return	100.00%	4.69%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		7.19%

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions, continued:

f. Assumed Asset Allocations, continued: For the June 30, 2023, measurement date, the target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Equity:		
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income:		
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected:		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long-Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		8.25%

g. Sensitivity Analysis: For the June 30, 2024, measurement date, the following presents HWEA's proportionate share of the net OPEB asset/liability calculated using the discount rate of 5.99%, as well as what HWEA's proportionate share of the net OPEB asset/liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.99%) or 1-percentage-point higher (6.99%) than the current rate:

Nonhazardous:	1% Decrease	Current Discount Rate	1% Increase
Discount rate	4.99%	5.99%	6.99%
HWEA's Net OPEB (Asset) / Liability	$412,842	$(305,331)	$(909,171)

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Actuarial Assumptions and Other Inputs – OPEB, continued

Discount Rate Assumptions, continued:

g. Sensitivity Analysis, continued: For the June 30, 2024, measurement date, the following presents HWEA's proportionate share of the net OPEB asset/liability calculated using the healthcare cost trend rate, as well as what HWEA's proportionate share of the net OPEB asset/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:

Nonhazardous:	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
HWEA's Net OPEB (Asset) / Liability	$(734,589)	$(305,331)	$194,724

For the June 30, 2023, measurement date, the following presents HWEA's proportionate share of the net OPEB asset/liability calculated using the discount rate of 5.93%, as well as what HWEA's proportionate share of the net OPEB asset/liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.93%) or 1-percentage-point higher (6.93%) than the current rate:

Nonhazardous:	1% Decrease	Current Discount Rate	1% Increase
Discount rate	4.93%	5.93%	6.93%
HWEA's Net OPEB (Asset) / Liability	$436,329	$(232,508)	$(792,578)

For the June 30, 2023, measurement date, the following presents HWEA's proportionate share of the net OPEB asset/liability calculated using the healthcare cost trend rate, as well as what HWEA's proportionate share of the net OPEB asset/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:

Nonhazardous:	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
HWEA's Net OPEB (Asset) / Liability	$(745,230)	$(232,508)	$397,322

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB), continued

Other Information about the OPEB Plan

Payables to the OPEB Plan:

At June 30, 2025, and 2024 HWEA reported no payables for outstanding contributions to the OPEB plan for the years then ended.

OPEB Plan Fiduciary Net Position:

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Public Pensions Authority Annual Comprehensive Financial Report at www.kyret.ky.gov.

9. DEFERRED COMPENSATION

HWEA employees who participate in CERS through KPPA have the option to also participate in tax-deferred supplemental retirement plans that are administered by the Kentucky Public Employees' Deferred Compensation Authority (KDC) under the authority of Kentucky Revised Statues (18A.230 – 18A.275). These plans permit employees to defer the payment of a portion of their salary until future years. Participation in these plans is voluntary and HWEA currently makes no contributions to these plans on behalf of the employee and maintains no custodial role for investments or investment transactions. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts of compensation deferred, including the investments and earnings thereon, vest with the employee and are not subject to the claims of HWEA's general creditors.

10. 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, 2025, are as follows:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 22,050,225	$23,962,268	$ 1,912,043
Depreciation Expense	(6,072,500)	(5,670,235)	402,265
Other Operating Expenses	(15,974,100)	(15,139,032)	835,068
Operating Income	3,625	3,153,001	3,149,376
Nonoperating Revenues and Capital Contributions	2,970,525	2,010,823	(959,702)
Interest Expense	(1,245,175)	(1,052,448)	192,727
Other Nonoperating Expenses	(109,350)	(64,749)	44,601
Change in Net Position	$ 1,619,625	$ 4,046,627	$ 2,427,002

Bond ordinances require that HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for the year ended June 30, 2024, are as follows:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 22,449,985	$23,276,141	$ 826,156
Depreciation Expense	(5,318,500)	(5,325,779)	(7,279)
Other Operating Expenses	(15,383,862)	(15,040,171)	343,691
Operating Income	1,747,623	2,910,191	1,162,568
Nonoperating Revenues and Capital Contributions	1,793,320	2,942,003	1,148,683
Interest Expense	(1,257,734)	(1,071,387)	186,347
Other Nonoperating Expenses	(3,650)	(64,749)	(61,099)
Change in Net Position	$ 2,279,559	$ 4,716,058	$ 2,436,499

11. SEGMENT REPORTING

HWEA has low interest loans from the Kentucky Infrastructure Authority (KIA) to finance its drinking water and clean water 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 Drinking Water Department operates the water supply systems for Hopkinsville, Pembroke, and Crofton. The Clean Water 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, 2025, and 2024, are presented on the following pages.

11. SEGMENT REPORTING, continued

	Drinking Water Department	Clean Water Department	Gas Department	Total
CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2025				
Assets:				
Current assets	$ 4,715,747	$ 5,179,185	$ 452,582	$ 10,347,514
Capital assets	60,816,179	85,626,594	5,440,787	151,883,560
Other assets	734,087	186,091	-	920,178
Total assets	66,266,013	90,991,870	5,893,369	163,151,252
Deferred outflows of resources	1,325,494	1,319,445	-	2,644,939
Liabilities:				
Current liabilities	4,215,220	2,736,464	101,169	7,052,853
Noncurrent liabilities	22,136,074	64,638,776	1,149,390	87,924,240
Total liabilities	26,351,294	67,375,240	1,250,559	94,977,093
Deferred inflows of resources	5,899,970	2,071,621	-	7,971,591
Net position:				
Net investment in capital assets	40,516,044	24,484,500	4,216,397	69,216,941
Restricted	1,540,634	1,542,876	-	3,083,510
Unrestricted (deficit)	(6,716,435)	(3,162,922)	426,413	(9,452,944)
Total net position	$ 35,340,243	$ 22,864,454	$ 4,642,810	$ 62,847,507
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2025				
Operating revenues (pledged against debt)	$ 9,079,875	$ 13,971,416	$ 910,977	$ 23,962,268
Depreciation expense	(2,763,764)	(2,764,673)	(141,798)	(5,670,235)
Other operating expenses	(7,004,996)	(7,716,902)	(417,134)	(15,139,032)
Operating income	(688,885)	3,489,841	352,045	3,153,001
Nonoperating revenues (expenses):				
Interest revenue	204,768	176,181	-	380,949
Other nonoperating income	15,017	6,399	-	21,416
Interest expense	(329,602)	(681,541)	(41,305)	(1,052,448)
Other nonoperating expense	(63,317)	(1,432)	-	(64,749)
Capital contributions	1,466,405	-	142,053	1,608,458
Transfers	8,076,344	(7,145,945)	(930,399)	-
Change in net position	8,680,730	(4,156,497)	(477,606)	4,046,627
Beginning net position	26,659,513	27,020,951	5,120,416	58,800,880
Ending net position	$ 35,340,243	$ 22,864,454	$ 4,642,810	$ 62,847,507
CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2025				
Net cash provided (used) by:				
Operating activities	$ 9,763,709	$ (1,738,483)	$ (448,099)	$ 7,577,127
Capital and related financing activities	(4,196,703)	(4,648,534)	(41,128)	(8,886,365)
Investing activities	467,635	192,333	-	659,968
Net increase (decrease)	6,034,641	(6,194,684)	(489,227)	(649,270)
Beginning cash and cash equivalents	(2,517,251)	10,397,192	874,479	8,754,420
Ending cash and cash equivalents	$ 3,517,390	$ 4,202,508	$ 385,252	$ 8,105,150

11. SEGMENT REPORTING, continued

	Drinking Water Department	Clean Water Department	Gas Department	Total
CONDENSED STATEMENT OF NET POSITION, JUNE 30, 2024				
Assets:				
Current assets	$ (1,153,080)	$ 11,476,140	$ 926,900	$ 11,249,960
Capital assets	59,021,081	81,082,872	5,516,622	145,620,575
Other assets	954,214	172,160	-	1,126,374
Total assets	58,822,215	92,731,172	6,443,522	157,996,909
Deferred outflows of resources	1,391,666	1,482,150	-	2,873,816
Liabilities:				
Current liabilities	4,239,679	3,365,263	98,365	7,703,307
Noncurrent liabilities	23,096,115	61,170,472	1,224,741	85,491,328
Total liabilities	27,335,794	64,535,735	1,323,106	93,194,635
Deferred inflows of resources	6,218,574	2,656,636	-	8,875,210
Net position:				
Net investment in capital assets	38,012,237	23,270,380	4,216,881	65,499,498
Restricted	1,430,907	1,445,806	-	2,876,713
Unrestricted (deficit)	(12,783,631)	2,304,765	903,535	(9,575,331)
Total net position	$ 26,659,513	$ 27,020,951	$ 5,120,416	$ 58,800,880
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, FOR THE YEAR ENDED JUNE 30, 2024				
Operating revenues (pledged against debt)	$ 8,936,409	$ 13,464,755	$ 874,977	$ 23,276,141
Depreciation expense	(2,562,844)	(2,625,084)	(137,851)	(5,325,779)
Other operating expenses	(7,154,176)	(7,520,224)	(365,771)	(15,040,171)
Operating income	(780,611)	3,319,447	371,355	2,910,191
Nonoperating revenues (expenses):				
Interest revenue	268,500	229,099	-	497,599
Other nonoperating income	4,458	56,907	-	61,365
Interest expense	(368,291)	(659,578)	(43,518)	(1,071,387)
Other nonoperating expense	(63,317)	(1,432)	-	(64,749)
Capital contributions	1,661,975	721,064	-	2,383,039
Transfers	2,586,273	(2,572,004)	(14,269)	-
Change in net position	3,308,987	1,093,503	313,568	4,716,058
Beginning net position	23,350,526	25,927,448	4,806,848	54,084,822
Ending net position	$ 26,659,513	$ 27,020,951	$ 5,120,416	$ 58,800,880
CONDENSED STATEMENT OF CASH FLOWS, FOR THE YEAR ENDED JUNE 30, 2024				
Net cash provided (used) by:				
Operating activities	$ 4,444,914	$ 2,972,346	$ 483,930	$ 7,901,190
Capital and related financing activities	(4,360,628)	(4,287,989)	(178,119)	(8,826,736)
Investing activities	521,076	245,293	-	766,369
Net increase (decrease)	605,362	(1,070,350)	305,811	(159,177)
Beginning cash and cash equivalents	(3,122,613)	11,467,542	568,668	8,913,597
Ending cash and cash equivalents	$ (2,517,251)	$ 10,397,192	$ 874,479	$ 8,754,420

12. 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.

13. 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.

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 $40,000 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, 2025, and 2024, the claims liability was $115,787 and $72,171 respectively. Changes in the claims liability during the last two fiscal years are as follows:

	Balance at Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2023-2024	$ 85,905	$ 583,292	$ 597,026	$ 72,171
2024-2025	$ 72,171	$ 973,613	$ 929,997	$115,787

14. CONSTRUCTION COMMITMENTS

HWEA is committed under various construction contracts. At June 30, 2025, HWEA had several construction projects underway, which included the following:

Project	Cost-to-Date	Estimated Cost to Complete
Southpark Water Tank Project	$ 260,816	$ 197,336
US-41A 24" Water Main Extension Contract B	2,009,098	445,456
KYTC US Hwy 68-80 / 7th Street Widening	43,228	373,770
Hwy 911 Project	66,866	203,076
Crescent St. Water Main Project	20,000	34,000
Total	$ 2,400,008	$ 1,253,638

HWEA had various projects underway that are reimbursable by Kentucky Transportation Cabinet.

15. RECLASSIFICATIONS

Prior period financial statement amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on the changes in net position or total net position.

16. RELATED PARTY TRANSACTIONS

The City of Hopkinsville, on behalf of HWEA, has issued a revenue bond and several general obligation bonds to finance certain drinking water and natural gas projects and to also refund old revenue bonds. See note 6 for details of these transactions.

As compensation to the City of Hopkinsville for use of the City's public rights-of-way, effective July 1, 2020, HWEA began collecting from customers and transferring to the City on a quarterly basis, payments in lieu of taxes (PILOT) equal to 2.00% of the gross revenue from the sale of water and sewer services received from customers located within the city limits of Hopkinsville, Kentucky. For the year ended June 30, 2025, HWEA collected $322,310 from customers for payments in lieu of taxes on water and sewer revenues. Of this amount, $245,508 had been paid to the City by June 30, 2025, and $76,802 was recorded as an account payable to the City. For the year ended June 30, 2024, HWEA collected $327,404 from customers for payments in lieu of taxes on water and sewer revenues. Of this amount, $245,499 had been paid to the City by June 30, 2024, and $81,905 was recorded as an account payable to the City.

16. RELATED PARTY TRANSACTIONS, continued

As compensation to the City of Hopkinsville for use of the City's public rights-of-way, effective July 1, 2020, HWEA also began paying the City on an annual basis, payments in lieu of taxes equal to $0.015 per CCF of natural gas sold to customers located within the city limits of Hopkinsville, Kentucky. For the years ended June 30, 2025, and 2024, payments in lieu of taxes on natural gas sales totaled $9,370 and $8,337, respectively, of which $9,370 and $8,337 were recorded as an account payable to the City at June 30, 2025, and 2024, respectively.

The City of Hopkinsville approved a series of sewer rate increases of 9.50% each for the Hopkinsville and Pembroke clean water divisions that were effective January 1, 2022, January 1, 2023, and January 1, 2024.

HWEA provides billing and cash collection services and leachate purification services for Hopkinsville Solid Waste Enterprise (HSWE), a component unit of the City of Hopkinsville, Kentucky. For the years ended June 30, 2025, and 2024, HWEA charged HSWE $124,729 and $118,680, respectively, for billing and collection services and $63,852 and $59,503, respectively, for leachate purification services, of which a total of $20,585 and $63,506 for all services was included in HWEA's customer receivables balance at June 30, 2025, and 2024, respectively. At June 30, 2025, and 2024, HWEA also recorded a payable to HSWE of $0 and $32,722, respectively, for billings collected on HSWE's behalf.

HWEA also provides billing and cash collection services for Hopkinsville Surface & Stormwater Utility (HSSU), a component unit of the City of Hopkinsville, Kentucky. For the years ended June 30, 2025, and 2024, HWEA charged HSSU $116,933 and $113,460, respectively, for these services, of which $108,973 and $63,276 was included in HWEA's customer receivables balance at June 30, 2025, and 2024, respectively. At June 30, 2025, and 2024, HWEA also recorded a payable to HSSU of $0 and $5,127, respectively, for billings collected on HSSU's behalf.

17. CONCENTRATIONS

To supply its natural gas lines, HWEA purchases all of its natural gas from Clarksville Gas & Water located in Clarksville, Tennessee. For the years ended June 30, 2025, and 2024, HWEA purchased natural gas from Clarksville Gas & Water totaling $344,727 and $307,251, respectively. At June 30, 2025, and 2024, HWEA had payables with Clarksville Gas & Water of $0 and $15,618, respectively.

18. SINGLE AUDIT ACT

Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), requires non-federal entities that expend $750,000 or more a year in federal awards to have an audit performed in accordance with the provisions of the guidance. The Single Audit section is included in this report beginning on page 82.

19. SUBSEQUENT EVENTS

HWEA continues to draw from open State Revolving Fund (SRF) loans with KIA in order to finance various ongoing construction projects.

HWEA's Board approved multiple motions to award engineering contracts relating to the Moss Water Treatment Plant GAC Membrane Study, the Oak Grove Clean Water Plant Expansion & Renovation Study, Hopkinsville Low Pressure Force Main Design Project, and the Pembroke Low Pressure Force Main Design Project. HWEA's Board also approved multiple bid recommendations to procure various equipment.

HWEA's Board approved the motion to issue a Letter of Intent to the Kentucky Association for Economic Development to notify them of HWEA's interest in applying for a Kentucky Product Development Initiative grant to be used to design sewer utility to better serve Commerce Park III by increasing sewer capacity.

In August 2025, the Hopkinsville City Council adopted Municipal Order 36-2025 to increase HWEA's wholesale rate for water service provided to Christian County Water District. The increase will occur in three phases. The effective date for the Phase I rate of $3.07 per 1,000 gallons was effective October 1, 2025; the Phase II rate of $3.53 per 1,000 gallons will be effective October 1, 2026, and the Phase III rate of $3.98 per 1,000 gallons will be effective October 1, 2027.

The Hopkinsville City Council also issued a Municipal Order to allow HWEA to apply for KIA SRF loan number A26-003S to help fund HWEA's SRF Phase IX – Priority 3 Sewer Rehabilitation Project. In December 2025, the KIA Board approved HWEA's loan application for this project.

HWEA received approval from the Board to apply for grant funding from KYWWATERS in support of several projects, the largest of which is Phase IV – Southpark 2 MG Elevated Storage Tank at an estimated cost of $14.5 million.

HWEA is currently working with FEMA to receive reimbursement for eligible expenses incurred during the April 2025 flood event.

Management has evaluated subsequent events through December 10, 2025, the date on which the financial statements were available to be issued.

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

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

FOR THE YEARS ENDED JUNE 30,

Nonhazardous:	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
HWEA's proportion of the net pension liability	0.176338%	0.168409%	0.169107%	0.171402%	0.146161%	0.130848%	0.130222%	0.136035%	0.129211%	0.118190%
HWEA's proportionate share of the net pension liability	$ 10,545,760	$ 10,805,978	$ 12,224,768	$ 10,928,222	$ 11,210,428	$ 9,202,598	$ 7,930,917	$ 7,962,547	$ 6,361,838	$ 5,081,523
HWEA's covered payroll	$ 5,645,939	$ 4,955,680	$ 4,720,038	$ 4,417,434	$ 3,760,467	$ 3,299,769	$ 3,256,186	$ 3,355,136	$ 3,131,198	$ 2,766,612
HWEA's proportionate share of the net pension liability as a percentage of its covered payroll	186.78%	218.05%	259.00%	247.39%	298.11%	278.89%	243.56%	237.32%	203.18%	183.67%
Total pension plan's fiduciary net position	$ 9,596,244,000	$ 8,672,597,000	$ 7,963,586,000	$ 8,565,652,000	$ 7,027,327,000	$ 7,159,921,000	$ 7,018,963,000	$ 6,687,237,095	$ 6,141,394,419	$ 6,440,799,856
Total pension plan's pension liability	$ 15,576,667,000	$ 15,089,106,000	$ 15,192,599,000	$ 14,941,437,000	$ 14,697,244,000	$ 14,192,966,000	$ 13,109,268,000	$ 12,540,544,538	$ 11,065,012,656	$ 10,740,325,421
Total pension plan fiduciary net position as a percentage of the total pension liability	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.32%	55.50%	59.97%

Note: Please read Note 7 in the notes to financial statements regarding detailed information on HWEA's pension plan. The County Retirement System measurement date is twelve months prior to HWEA's financial statements; for HWEA's fiscal years ended June 30, 2025 and 2024, the measurement dates were June 30, 2024 and 2023, respectively.

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contributions	$ 1,172,059	$ 1,317,762	$ 1,159,629	$ 999,232	$ 852,565	$ 725,770	$ 535,347	$ 464,785	$ 464,029	$ 394,384
Contributions in relation to the statutorily required contributions	(1,172,059)	(1,317,762)	(1,159,629)	(999,232)	(852,565)	(725,770)	(535,347)	(464,785)	(464,029)	(394,384)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
HWEA's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
HWEA's covered payroll	$ 5,946,205	$ 5,645,939	$ 4,955,680	$ 4,720,038	$ 4,417,434	$ 3,760,467	$ 3,299,769	$ 3,256,186	$ 3,355,136	$ 3,131,198
Contributions as a percentage of covered payroll	19.71%	23.34%	23.40%	21.17%	19.30%	19.30%	16.22%	14.27%	13.83%	12.60%

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

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

	2025	2024	2023	2022	2021	2020	2019	2018
Nonhazardous:								
HWEA's proportion of the net OPEB (asset) / liability	0.176512%	0.168403%	0.169077%	0.171362%	0.146119%	0.130814%	0.130217%	0.136035%
HWEA's proportionate share of the net OPEB (asset) / liability	$ (305,331)	$ (232,508)	$ 3,336,758	$ 3,280,640	$ 3,528,329	$ 2,200,233	$ 2,311,977	$ 2,734,769
HWEA's covered payroll	$ 5,645,939	$ 4,955,680	$ 4,720,038	$ 4,417,434	$ 3,760,467	$ 3,299,769	$ 3,256,186	$ 3,355,136
HWEA's proportionate share of the net OPEB (asset) / liability as a percentage of its covered payroll	-5.41%	-4.69%	70.69%	74.27%	93.83%	66.68%	71.00%	81.51%
Total plan fiduciary net position	$ 3,707,277,000	$ 3,398,375,000	$ 3,079,984,000	$ 3,246,801,000	$ 2,581,613,000	$ 2,569,511,000	$ 2,414,126,000	$ 2,212,535,662
Total OPEB liability	$ 3,534,297,000	$ 3,260,308,000	$ 5,053,498,000	$ 5,161,251,000	$ 4,996,309,000	$ 4,251,466,000	$ 4,189,606,000	$ 4,222,877,716
Total plan fiduciary net position as a percentage of the total OPEB liability	104.89%	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%

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

Note: Please read Note 8 in the notes to financial statements regarding detailed information on HWEA's OPEB plan. The County Employees Retirement System measurement date is twelve months prior to HWEA's financial statements; for HWEA's fiscal years ended June 30, 2025 and 2024, the measurement dates were June 30, 2024 and 2023, respectively.

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

	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions	$ -	$ -	$ 167,998	$ 272,818	$ 210,270	$ 178,998	$ 173,608	$ 154,929
Contributions in relation to the statutorily required contributions	-	-	(167,998)	(272,818)	(210,270)	(178,998)	(173,608)	(154,929)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
HWEA's contributions as a percentage of statutorily required contribution for OPEB	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
HWEA's covered payroll	$ 5,946,205	$ 5,645,939	$ 4,955,680	$ 4,720,038	$ 4,417,434	$ 3,760,467	$ 3,299,769	$ 3,256,186
Contributions as a percentage of covered payroll	0.00%	0.00%	3.39%	5.78%	4.76%	4.76%	5.26%	4.76%

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

Note: Please read Note 8 in the notes to financial statements regarding detailed information on HWEA's OPEB plan.

Supplementary Information

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING SCHEDULE OF NET POSITION
June 30, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Hopkinsville			Pembroke		Crofton		Oak Grove	Totals
	Drinking Water	Clean Water	Gas	Drinking Water	Clean Water	Drinking Water	Clean Water	Clean Water	
Current assets									
Unrestricted current assets									
Cash and cash equivalents									
Petty cash and change fund	$ 1,000	$ 1,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,000
Health claims fund	142,715	142,715	-	-	-	-	-	-	285,430
Employee reimbursement fund	16,457	-	-	-	-	-	-	-	16,457
Operation and maintenance fund	1,491,784	2,745,762	385,252	310,751	(105,073)	165,593	(61,251)	90,266	5,023,084
Total cash and cash equivalents	1,651,956	2,889,477	385,252	310,751	(105,073)	165,593	(61,251)	90,266	5,326,971
Customer receivables, net of allowance	739,688	589,393	67,330	10,279	18,502	15,968	7,666	306,635	1,755,461
Grant funds receivable	-	-	-	-	-	-	-	-	-
Inventory	417,452	39,390	-	-	-	-	-	-	456,842
Prepaid insurance	14,970	14,970	-	-	-	-	-	-	29,940
Accrued interest on note receivable	-	121	-	-	-	-	-	-	121
Inter-department receivable	-	-	-	-	-	-	-	-	-
Total unrestricted current assets	2,824,066	3,533,351	452,582	321,030	(86,571)	181,561	(53,585)	396,901	7,569,335
Restricted current assets									
Bond and interest redemption fund									
Cash and cash equivalents	231,575	231,574	-	-	-	-	-	-	463,149
Construction fund									
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Equipment maintenance and replacement fund									
Cash and cash equivalents	1,157,515	1,157,515	-	-	-	-	-	-	2,315,030
Total restricted current assets	1,389,090	1,389,089	-	-	-	-	-	-	2,778,179
Total current assets	$ 4,213,156	$ 4,922,440	$ 452,582	$ 321,030	$ (86,571)	$ 181,561	$ (53,585)	$ 396,901	$ 10,347,514

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING SCHEDULE OF NET POSITION (continued)
June 30, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, (continued)

	Hopkinsville			Pembroke		Crofton		Oak Grove	Totals
	Drinking Water	Clean Water	Gas	Drinking Water	Clean Water	Drinking Water	Clean Water	Clean Water	
Noncurrent assets									
Capital assets									
Property, plant and equipment	$ 103,253,705	$ 119,567,639	$ 6,165,717	$ 842,881	$ 917,392	$ 1,138,026	$ 1,619,182	$ 11,555,643	$ 245,060,185
Construction in progress	2,333,142	-	-	-	-	-	-	66,866	2,400,008
	105,586,847	119,567,639	6,165,717	842,881	917,392	1,138,026	1,619,182	11,622,509	247,460,193
Less accumulated depreciation	45,612,500	41,689,800	724,930	495,943	334,379	643,132	864,582	5,211,367	95,576,633
Net capital assets	59,974,347	77,877,839	5,440,787	346,938	583,013	494,894	754,600	6,411,142	151,883,560
Other noncurrent assets									
Note receivable	-	32,304	-	-	-	-	-	-	32,304
Other receivable - USACE	582,543	-	-	-	-	-	-	-	582,543
Net OPEB asset	151,544	153,787	-	-	-	-	-	-	305,331
Total other noncurrent assets	734,087	186,091	-	-	-	-	-	-	920,178
Total noncurrent assets	60,708,434	78,063,930	5,440,787	346,938	583,013	494,894	754,600	6,411,142	152,803,738
Total assets	64,921,590	82,986,370	5,893,369	667,968	496,442	676,455	701,015	6,808,043	163,151,252
Deferred outflows of resources									
Deferred outflows from pension	982,988	997,547	-	-	-	-	-	-	1,980,535
Deferred outflows from OPEB	310,848	315,452	-	-	-	-	-	-	626,300
Deferred refunding costs	31,658	-	-	-	-	-	-	6,446	38,104
Total deferred outflows of resources	1,325,494	1,312,999	-	-	-	-	-	6,446	2,644,939
Total assets and deferred outflows of resources	$ 66,247,084	$ 84,299,369	$ 5,893,369	$ 667,968	$ 496,442	$ 676,455	$ 701,015	$ 6,814,489	$ 165,796,191

SCHEDULE 1

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING SCHEDULE OF NET POSITION (continued)
June 30, 2025

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Hopkinsville			**Pembroke**		**Crofton**		**Oak Grove**	**Totals**
	Drinking Water	Clean Water	Gas	Drinking Water	Clean Water	Drinking Water	Clean Water	Clean Water	
Current liabilities									
State Revolving Fund loans, current portion	$ 1,161,653	$ 1,210,026	$ -	$ -	$ -	$ -	$ -	$ 348,701	$ 2,720,380
Payable to City of Hopkinsville, current portion	2,144,000	-	75,000	-	-	-	-	95,000	2,314,000
Payable to City of Hopkinsville, PILOT	29,973	46,829	9,370	-	-	-	-	-	86,172
Customer deposits	11,700	-	-	-	-	-	-	-	11,700
Accrued interest	64,985	58,337	10,273	-	-	-	-	12,814	146,409
Construction retainage payable	199,960	300,000	-	-	-	-	-	-	499,960
Accounts payable	207,748	290,902	6,526	447	426	675	103	-	506,827
Construction contracts payable	32,614	-	-	-	-	-	-	-	32,614
Accrued salaries	140,655	135,597	-	-	-	-	-	-	276,252
Accrued compensated absences	220,810	237,729	-	-	-	-	-	-	458,539
Total current liabilities	4,214,098	2,279,420	101,169	447	426	675	103	456,515	7,052,853
Noncurrent liabilities									
State Revolving Fund loans, net of current portion	14,138,414	55,003,321	-	-	-	-	-	3,896,702	73,038,437
Payable to City of Hopkinsville, net of current portion	2,655,152	-	1,149,390	-	-	-	-	294,790	4,099,332
Net pension liability	5,234,133	5,311,627	-	-	-	-	-	-	10,545,760
Net OPEB liability	-	-	-	-	-	-	-	-	-
Compensated absences, net of current portion	108,375	132,336	-	-	-	-	-	-	240,711
Total noncurrent liabilities	22,136,074	60,447,284	1,149,390	-	-	-	-	4,191,492	87,924,240
Total liabilities	26,350,172	62,726,704	1,250,559	447	426	675	103	4,648,007	94,977,093
Deferred inflows of resources									
Deferred revenue - fire service collected in advance	120,233	-	-	-	-	-	-	-	120,233
Deferred revenue - USACE	3,738,348	-	-	-	-	-	-	-	3,738,348
Deferred inflows from pension	584,935	593,601	-	-	-	-	-	-	1,178,536
Deferred inflows from OPEB	1,456,454	1,478,020	-	-	-	-	-	-	2,934,474
Total deferred inflows of resources	5,899,970	2,071,621	-	-	-	-	-	-	7,971,591
Total liabilities and deferred inflows of resources	32,250,142	64,798,325	1,250,559	447	426	675	103	4,648,007	102,948,684
Net position									
Net investment in capital assets	39,674,212	21,364,492	4,216,397	346,938	583,013	494,894	754,600	1,782,395	69,216,941
Restricted									
Bond and interest redemption	231,575	231,574	-	-	-	-	-	-	463,149
Equipment maintenance and replacement	1,157,515	1,157,515	-	-	-	-	-	-	2,315,030
Net OPEB asset	151,544	153,787	-	-	-	-	-	-	305,331
Unrestricted (deficit)	(7,217,904)	(3,406,324)	426,413	320,583	(86,997)	180,886	(53,688)	384,087	(9,452,944)
Total net position	33,996,942	19,501,044	4,642,810	667,521	496,016	675,780	700,912	2,166,482	62,847,507
Total liabilities, deferred inflows of resources, and net position	$ 66,247,084	$ 84,299,369	$ 5,893,369	$ 667,968	$ 496,442	$ 676,455	$ 701,015	$ 6,814,489	$ 165,796,191

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
COMBINING SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the year ended June 30, 2025

	Hopkinsville			Pembroke		Crofton		Oak Grove	Totals
	Drinking Water	Clean Water	Gas	Drinking Water	Clean Water	Drinking Water	Clean Water	Clean Water	
Operating revenues	$ 8,750,593	$ 11,200,992	$ 910,977	$ 120,484	$ 225,362	$ 208,798	$ 112,152	$ 2,432,910	$ 23,962,268
Operating expenses									
Drinking water source of supply	553,591	-	-	-	-	-	-	-	553,591
Drinking water purification	2,259,720	-	-	-	-	-	-	-	2,259,720
Drinking water distribution	1,758,201	-	-	51,175	-	159,222	-	-	1,968,598
Clean water treatment plant and pumping stations	-	2,238,497	-	-	10,596	-	6,122	1,471,153	3,726,368
Clean water distribution	-	1,611,413	-	-	67,927	-	55,129	-	1,734,469
Natural gas	-	-	417,134	-	-	-	-	-	417,134
Engineering services	371,971	403,657	-	-	-	-	-	-	775,628
Customer service	916,779	904,268	-	-	-	-	-	-	1,821,047
Administrative and general	931,121	944,969	-	1,118	1,811	2,098	1,360	-	1,882,477
Depreciation	2,692,534	2,246,694	141,798	23,328	55,249	47,902	47,049	415,681	5,670,235
Total operating expenses	9,483,917	8,349,498	558,932	75,621	135,583	209,222	109,660	1,886,834	20,809,267
Operating income	(733,324)	2,851,494	352,045	44,863	89,779	(424)	2,492	546,076	3,153,001
Nonoperating revenues (expenses)									
Interest revenue	204,768	176,181	-	-	-	-	-	-	380,949
Gain (loss) on sale of property, plant and equipment	15,017	6,717	-	-	-	-	-	(318)	21,416
Amortization of deferred refunding costs	(63,317)	-	-	-	-	-	-	(1,432)	(64,749)
Interest expense	(329,602)	(569,898)	(41,305)	-	-	-	-	(111,643)	(1,052,448)
Total nonoperating revenues (expenses)	(173,134)	(387,000)	(41,305)	-	-	-	-	(113,393)	(714,832)
Income (loss) before capital contributions and transfers	(906,458)	2,464,494	310,740	44,863	89,779	(424)	2,492	432,683	2,438,169
Capital contributions									
Capital assets contributed by developers	177,493	-	142,053	-	-	-	-	-	319,546
Grant income	1,288,912	-	-	-	-	-	-	-	1,288,912
Total capital contributions	1,466,405	-	142,053	-	-	-	-	-	1,608,458
Transfers (to) from									
Operating transfers in (out)	8,260,447	(7,546,108)	(930,399)	34,782	(169,277)	(218,885)	48,398	521,042	-
Change in net position	8,820,394	(5,081,614)	(477,606)	79,645	(79,498)	(219,309)	50,890	953,725	4,046,627
Net position - beginning of year	25,176,548	24,582,658	5,120,416	587,876	575,514	895,089	650,022	1,212,757	58,800,880
Net position - end of year	$ 33,996,942	$ 19,501,044	$ 4,642,810	$ 667,521	$ 496,016	$ 675,780	$ 700,912	$ 2,166,482	$ 62,847,507

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULES OF OPERATING EXPENSES
For the years ended June 30, 2025 and 2024

	2025		2024	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Drinking Water Source of Supply				
Supplies	$ 25	0.00%	$ 1,034	0.00%
Utilities	526,855	2.20%	550,383	2.36%
Maintenance to equipment	26,375	0.11%	80,827	0.35%
Maintenance to buildings and grounds	336	0.00%	342	0.00%
Total drinking water source of supply	553,591	2.31%	632,586	2.72%
Drinking Water Purification				
Labor	860,095	3.59%	793,724	3.41%
Employee benefits	336,728	1.41%	339,713	1.46%
Chemicals	474,668	1.98%	486,545	2.09%
Maintenance to equipment	36,296	0.15%	34,674	0.15%
Supplies	18,737	0.08%	17,550	0.08%
Maintenance to reservoirs and tanks	14,338	0.06%	40,572	0.17%
Utilities	402,792	1.68%	385,037	1.65%
Training and education	4,927	0.02%	3,929	0.02%
Laboratory work	18,662	0.08%	29,846	0.13%
Laboratory supplies and expense	40,495	0.17%	30,158	0.13%
Emergency generators	14,071	0.06%	8,449	0.04%
Maintenance to buildings and grounds	21,642	0.09%	39,122	0.17%
Professional services	4,200	0.02%	4,476	0.02%
Transportation expense	9,307	0.04%	12,716	0.05%
Small tools	2,762	0.01%	7,935	0.03%
Total drinking water purification	2,259,720	9.43%	2,234,446	9.60%
Drinking Water Distribution				
Labor	1,021,908	4.26%	912,558	3.92%
Employee benefits	463,490	1.93%	413,229	1.78%
Supplies	181,844	0.76%	259,734	1.12%
Maintenance to distribution mains	132,039	0.55%	116,410	0.50%
Maintenance to fire hydrants	13,537	0.06%	1,653	0.01%
Maintenance to equipment	28,572	0.12%	29,967	0.13%
Transportation expense	49,654	0.21%	58,007	0.25%
Maintenance to buildings and grounds	8,628	0.04%	9,295	0.04%
Utilities	19,249	0.08%	18,935	0.08%
Professional services	-	0.00%	13,762	0.06%
Transmission expense	18,496	0.08%	21,059	0.09%
Training, education and licenses	13,481	0.06%	10,942	0.05%
Small tools	17,700	0.07%	18,176	0.08%
Total drinking water distribution	1,968,598	8.22%	1,883,727	8.09%
Subtotal carried forward	$ 4,781,909	19.96%	$ 4,750,759	20.41%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULES OF OPERATING EXPENSES (continued)
For the years ended June 30, 2025 and 2024

	2025		2024	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	$ 4,781,909	19.96%	$ 4,750,759	20.41%
Drinking Water Engineering Services				
Labor	255,574	1.07%	273,651	1.18%
Employee benefits	101,488	0.42%	133,004	0.57%
Supplies	10,735	0.04%	10,966	0.05%
Training, education and licenses	1,278	0.01%	399	0.00%
Transportation expense	2,896	0.01%	4,242	0.02%
Total drinking water engineering services	371,971	1.55%	422,262	1.81%
Drinking Water Customer Service				
Customer service salaries	445,981	1.86%	451,059	1.94%
Employee benefits	179,005	0.75%	212,428	0.91%
Office supplies	27,305	0.11%	28,940	0.12%
Transportation expense	16,125	0.07%	17,240	0.07%
Training, education and licenses	253	0.00%	538	0.00%
Professional services	248,110	1.04%	154,241	0.66%
Postage	-	0.00%	4,114	0.02%
Total drinking water customer service	916,779	3.83%	868,560	3.73%
Drinking Water Administrative and General				
Office salaries	548,124	2.29%	483,869	2.08%
Employee benefits	(290,081)	-1.21%	(4,527)	-0.02%
Office supplies	22,398	0.09%	25,323	0.11%
Postage	4,445	0.02%	1,935	0.01%
Telephone	38,562	0.16%	38,847	0.17%
Insurance and bonds	267,591	1.12%	217,441	0.93%
Professional services	75,602	0.32%	56,376	0.24%
Safety program and drug screening	34,820	0.15%	26,708	0.11%
Maintenance to buildings and grounds	33,682	0.14%	34,640	0.15%
Bad debts, net	90,553	0.38%	30,638	0.13%
Training, education and licenses	1,994	0.01%	2,625	0.01%
Transportation expense	2,806	0.01%	6,366	0.03%
REZ and CCWD rebate payments	990	0.00%	940	0.00%
Utilities	18,605	0.08%	17,652	0.08%
Meetings and events	19,699	0.08%	17,448	0.07%
Advertising, donations, and memberships	54,249	0.23%	92,442	0.40%
Miscellaneous	10,298	0.04%	63,873	0.27%
Total drinking water administrative and general	934,337	3.90%	1,112,596	4.78%
Total drinking water operating expense other than depreciation	$ 7,004,996	29.23%	$ 7,154,177	30.74%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULES OF OPERATING EXPENSES (continued)
For the years ended June 30, 2025 and 2024

	2025		2024	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Clean Water Treatment Plant and Pumping Stations				
Labor	$ 895,704	3.74%	$ 797,043	3.42%
Employee benefits	419,185	1.75%	386,239	1.66%
Chemicals and materials	272,143	1.14%	367,382	1.58%
Supplies and tools	64,448	0.27%	58,963	0.25%
Utilities	948,019	3.96%	800,693	3.44%
Transportation expense	38,207	0.16%	39,206	0.17%
Maintenance to machinery and equipment	158,951	0.66%	126,463	0.54%
Maintenance to buildings and grounds	93,323	0.39%	42,601	0.18%
Maintenance of pump stations	363,590	1.52%	306,876	1.32%
Emergency generators	21,670	0.09%	38,558	0.17%
Laboratory work	57,974	0.24%	49,216	0.21%
Laboratory supplies and expense	37,919	0.16%	28,321	0.12%
Sludge disposal	319,077	1.33%	417,178	1.79%
Training, education and licenses	4,417	0.02%	9,528	0.04%
Professional services	1,100	0.00%	2,102	0.01%
Billing and collection expense	30,641	0.13%	28,210	0.12%
Total clean water treatment plant and pumping stations	3,726,368	15.55%	3,498,579	15.03%
Clean Water Distribution				
Labor	956,455	3.99%	880,214	3.78%
Employee benefits	442,791	1.85%	431,734	1.85%
Supplies and tools	148,673	0.62%	152,962	0.66%
Maintenance to mains and laterals	69,185	0.29%	95,316	0.41%
Maintenance to machinery and equipment	34,436	0.14%	46,392	0.20%
Transportation expense	41,121	0.17%	42,460	0.18%
Utilities	19,601	0.08%	19,945	0.09%
Maintenance to buildings and grounds	17,676	0.07%	13,016	0.06%
Training, education and licenses	3,931	0.02%	2,211	0.01%
Professional services	600	0.00%	600	0.00%
Total clean water distribution	1,734,469	7.24%	1,684,850	7.24%
Clean Water Engineering Services				
Labor	283,995	1.19%	345,872	1.49%
Employee benefits	104,701	0.44%	136,377	0.59%
Supplies	10,776	0.04%	10,989	0.05%
Training, education and licenses	1,278	0.01%	399	0.00%
Transportation expense	2,907	0.01%	4,242	0.02%
Total clean water engineering services	403,657	1.68%	497,879	2.14%
Subtotal carried forward	$ 5,864,494	24.47%	$ 5,681,308	24.41%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULES OF OPERATING EXPENSES (continued)
For the years ended June 30, 2025 and 2024

	2025		2024	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	$ 5,864,494	24.47%	$ 5,681,308	24.41%
Clean Water Customer Service				
Customer service salaries	445,982	1.86%	451,019	1.94%
Employee benefits	166,792	0.70%	200,059	0.86%
Office supplies	27,380	0.11%	28,913	0.12%
Transportation expense	16,125	0.07%	17,240	0.07%
Training, education and licenses	253	0.00%	538	0.00%
Professional services	247,736	1.03%	151,890	0.65%
Postage	-	0.00%	4,114	0.02%
Total clean water customer service	904,268	3.77%	853,773	3.67%
Clean Water Administrative and General				
Office salaries	548,292	2.29%	483,869	2.08%
Employee benefits	(304,111)	-1.27%	(85,746)	-0.37%
Office supplies	22,220	0.09%	25,419	0.11%
Postage	2,945	0.01%	1,935	0.01%
Telephone	38,562	0.16%	38,847	0.17%
Insurance and bonds	267,591	1.12%	217,441	0.93%
Professional services	71,068	0.30%	48,862	0.21%
Maintenance to buildings and grounds	33,691	0.14%	34,612	0.15%
Bad debts, net	110,161	0.46%	32,028	0.14%
Training, education and licenses	1,994	0.01%	1,864	0.01%
Safety program and drug screening	52,796	0.22%	46,917	0.20%
Transportation expense	2,809	0.01%	6,370	0.03%
Rez rebate payments	-	0.00%	-	0.00%
Utilities	18,585	0.08%	17,652	0.08%
Meetings and events	19,579	0.08%	15,424	0.07%
Advertising, donations, and memberships	54,249	0.23%	92,042	0.40%
Miscellaneous	7,709	0.03%	7,606	0.03%
Total clean water administrative and general	948,140	3.96%	985,142	4.23%
Total clean water operating expense other than depreciation	$ 7,716,902	32.20%	$ 7,520,223	32.31%
Natural Gas				
Gas purchased	$ 344,727	1.44%	$ 307,251	1.32%
Labor	38,070	0.16%	20,540	0.09%
Employee benefits	10,348	0.04%	6,321	0.03%
Maintenance to mains and equipment	3,642	0.02%	7,706	0.03%
Supplies	2,531	0.01%	209	0.00%
Postage	63	0.00%	61	0.00%
Telephone	1,041	0.00%	954	0.00%
Training, education and licenses	11,226	0.05%	7,547	0.03%
Safety	154	0.00%	-	0.00%
Transportation expense	1,473	0.01%	2,232	0.01%
Professional services	420	0.00%	407	0.00%
Insurance	3,420	0.01%	2,496	0.01%
Advertising, donations, and memberships	19	0.00%	10,019	0.04%
Small tools	-	0.00%	28	0.00%
Total natural gas	417,134	1.74%	365,771	1.57%
Total natural gas operating expense other than depreciation	$ 417,134	1.74%	$ 365,771	1.57%

SCHEDULE 4

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF CAPITAL ASSETS
For the year ended June 30, 2025

	ASSETS					ACCUMULATED DEPRECIATION					
Descriptions	Balance June 30, 2024	Additions	Deletions	Transfers	Balance June 30, 2025	Balance June 30, 2024	Additions	Deletions	Transfers	Balance June 30, 2025	Depreciated values June 30, 2025
DRINKING WATER:											
Drinking water plant											
Land	$ 1,230,391	$ -	$ -	$ -	$ 1,230,391	$ -	$ -	$ -	$ -	$ -	$ 1,230,391
Structures	3,175,145	49,804	1,307	-	3,223,642	2,085,399	84,688	725	-	2,169,362	1,054,280
Elevated tanks	5,100,578	7,390	-	-	5,107,968	2,868,276	158,027	-	-	3,026,303	2,081,665
Transmission mains	196,596	-	-	-	196,596	196,596	-	-	-	196,596	-
Distribution mains	27,484,759	345,275	-	4,159,190	31,989,224	12,358,847	601,734	-	-	12,960,581	19,028,643
Services	4,125,588	106,746	-	-	4,232,334	2,149,969	153,215	-	-	2,303,184	1,929,150
Meters and installation	3,324,831	968,044	772,035	-	3,520,840	1,576,550	369,589	772,035	-	1,174,104	2,346,736
Hydrants	1,167,690	53,590	-	-	1,221,280	680,247	20,905	-	-	701,152	520,128
Purification structures	18,236,320	10,094	-	-	18,246,414	10,607,097	699,377	-	-	11,306,474	6,939,940
Purification equipment	3,755,277	5,551	-	-	3,760,828	3,361,332	46,495	-	-	3,407,827	353,001
Electric pumping equipment	286,985	-	-	-	286,985	240,099	3,797	-	-	243,896	43,089
Quarry - raw water supply	29,602,543	-	-	-	29,602,543	6,924,254	431,235	-	-	7,355,489	22,247,054
Total drinking water plant	97,686,703	1,546,494	773,342 -	4,159,190	102,619,045	43,048,666	2,569,062	772,760	-	44,844,968	57,774,077
General											
Transportation equipment	891,279	51,421	49,453	-	893,247	641,278	79,066	49,453	-	670,891	222,356
Tractors and backhoes	359,182	-	-	-	359,182	142,015	24,217	-	-	166,232	192,950
General equipment	955,356	62,484	6,874	-	1,010,966	747,520	58,716	6,874	-	799,362	211,604
Office furniture and fixtures	77,008	1,949	-	-	78,957	59,301	5,735	-	-	65,036	13,921
Two-way radio equipment	6,712	-	-	-	6,712	5,648	615	-	-	6,263	449
Computer equipment	249,854	28,086	11,437	-	266,503	176,214	26,355	3,746	-	198,823	67,680
Total general	2,539,391	143,940	67,764	-	2,615,567	1,771,976	194,704	60,073	-	1,906,607	708,960
Unclassified											
Construction in progress	3,615,629	2,876,703	-	(4,159,190)	2,333,142	-	-	-	-	-	2,333,142
Total drinking water plant	$ 103,841,723	$ 4,567,137	$ 841,106	$ -	$ 107,567,754	$ 44,820,642	$ 2,763,766	$ 832,833	$ -	$ 46,751,575	$ 60,816,179

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF CAPITAL ASSETS (continued)
For the year ended June 30, 2025

	ASSETS					ACCUMULATED DEPRECIATION					
Descriptions	Balance June 30, 2024	Additions	Deletions	Transfers	Balance June 30, 2025	Balance June 30, 2024	Additions	Deletions	Transfers	Balance June 30, 2025	Depreciated values June 30, 2025
CLEAN WATER:											
Clean water plant											
Land	$ 341,449	$ -	$ -	$ -	$ 341,449	$ -	$ -	$ -	$ -	$ -	$ 341,449
Buildings	4,458,158	100,608	8,293	-	4,550,473	2,479,798	170,497	7,478	-	2,642,817	1,907,656
Clean water treatment plants											
Northside	8,312,249	-	-	-	8,312,249	8,310,378	736	-	-	8,311,114	1,135
Hopkinsville	11,901,209	43,515	11,792,930	48,589,238	48,741,032	11,818,265	461,483	11,792,930	-	486,818	48,254,214
Machinery and equipment	216,715	-	-	-	216,715	215,478	1,237	-	-	216,715	-
Pumping stations	17,339,819	59,071	6,875	599,697	17,991,712	8,099,786	762,240	6,789	-	8,855,237	9,136,475
Mains and laterals	47,949,994	163,786	-	737,612	48,851,392	24,163,956	954,816	-	-	25,118,772	23,732,620
Total clean water plant	90,519,593	366,980	11,808,098	49,926,547	129,005,022	55,087,661	2,351,009	11,807,197	-	45,631,473	83,373,549
General											
Transportation equipment	1,326,652	70,656	-	-	1,397,308	717,739	115,082	-	-	832,821	564,487
Tractors and backhoes	218,796	-	-	-	218,796	136,279	10,407	-	-	146,686	72,110
General equipment	2,242,395	472,280	26,982	-	2,687,693	1,001,741	247,688	26,732	-	1,222,697	1,464,996
Office furniture and fixtures	110,047	1,949	-	-	111,996	72,612	14,722	-	-	87,334	24,662
Two-way radio equipment	9,151	-	-	-	9,151	7,217	922	-	-	8,139	1,012
Computer equipment	216,426	24,613	11,149	-	229,890	149,595	24,841	3,458	-	170,978	58,912
Total general	4,123,467	569,498	38,131	-	4,654,834	2,085,183	413,662	30,190	-	2,468,655	2,186,179
Unclassified											
Construction in progress	43,612,656	6,406,035	25,278	(49,926,547)	66,866	-	-	-	-	-	66,866
Total clean water plant	138,255,716	7,342,513	11,871,507	-	133,726,722	57,172,844	2,764,671	11,837,387	-	48,100,128	85,626,594
NATURAL GAS:											
General											
Distribution mains	5,966,243	22,620	-	-	5,988,863	517,687	122,475	-	-	640,162	5,348,701
Meters and installation	119,894	43,342	-	-	163,236	56,367	16,599	-	-	72,966	90,270
Transportation equipment	13,618	-	-	-	13,618	9,079	2,723	-	-	11,802	1,816
Total general	6,099,755	65,962	-	-	6,165,717	583,133	141,797	-	-	724,930	5,440,787
Unclassified											
Construction in progress	-	-	-	-	-	-	-	-	-	-	-
Total natural gas	$ 6,099,755	$ 65,962	$ -	$ -	$ 6,165,717	$ 583,133	$ 141,797	$ -	$ -	$ 724,930	$ 5,440,787

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF SINKING FUND REQUIREMENTS
June 30, 2025

Bonds Due Fiscal Year	2010B	2013B	2014B	2014C	2015A	Total Debt Service
2026	$ 259,127	$ 255,050	$ 114,969	$ 107,075	$ 1,785,000	$ 2,521,221
2027	261,139	253,477	117,644	89,225	-	721,485
2028	261,540	251,540	115,244	111,825	-	740,149
2029	261,280	254,025	117,716	108,413	-	741,434
2030	130,500	255,825	115,060	-	-	501,385
2031	-	251,787	117,325	-	-	369,112
2032	-	251,887	119,256	-	-	371,143
2033	-	251,537	115,931	-	-	367,468
2034	-	255,628	117,518	-	-	373,146
2035	-	-	118,865	-	-	118,865
2036	-	-	115,059	-	-	115,059
2037	-	-	116,162	-	-	116,162
2038	-	-	117,088	-	-	117,088
	$ 1,173,586	$ 2,280,756	$ 1,517,837	$ 416,538	$ 1,785,000	$ 7,173,717

The sinking fund reserve requirement is the maximum total debt service on bonds due in future years. Therefore, the sinking fund reserve requirement as of June 30, 2025, was $2,521,221. HWEA is setting aside funds to meet this requirement.

Single Audit Section

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2025

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Pass-through Grantor and Number	Pass-Through to Subrecipients	Federal Expenditures	
Other Programs:					
Department of the Treasury					
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	KY Infrastructure Authority, KY Cleaner Water Program Project 21CWS103	-	20,000	*
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	KY Infrastructure Authority, KY Cleaner Water Program Project 22CWW256	-	1,268,912	*
Total **COVID-19** Coronavirus State and Local Fiscal Recovery Funds			-	1,288,912	
Total Department of Treasury			-	1,288,912	
Total Other Programs			-	1,288,912	
Total Expenditures of Federal Awards			$ -	$ 1,288,912	

*Denotes major program

See accompanying notes to schedule of expenditures of federal awards.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2025

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, and is presented on the cash basis of accounting. The information in that schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in that schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE B - SUBRECIPIENTS

Hopkinsville Water Environment Authority did not provide any federal awards to subrecipients during the year ended June 30, 2025.

NOTE C – INDIRECT COST RATE

Hopkinsville Water Environment Authority has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – LOAN BALANCES

At June 30, 2025 and 2024, the outstanding principal balance on the State Revolving Funds Loan A19-003 from the Kentucky Infrastructure Authority totaled $44,979,410 and $39,371,523, respectively. At June 30, 2025 and 2024, the outstanding principal balance on the State Revolving Funds Loan F16-001 from the Kentucky Infrastructure Authority totaled $7,670,040 and $5,286,486, respectively. None of the funds expended from SRF Loan A19-003 or SRF Loan F16-001 during fiscal year ended June 30, 2025, were from federal sources; therefore, there are no expenditures to include on the accompanying schedule of expenditures of federal awards for the fiscal year ended June 30, 2025. For additional information, see Note 6, Noncurrent Liabilities, in the notes to the financial statements.

YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise HWEA's basic financial statements, and have issued our report thereon dated December 10, 2025.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

1113 BETHEL STREET | HOPKINSVILLE, KY 42240 | PHONE: (270) 886-0206 | FAX: (270) 886-0875 | WWW.YORKNEEL.COM

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

York, Neel & Associates, LLP

Hopkinsville, Kentucky
December 10, 2025

YORK, NEEL & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hopkinsville Water Environment Authority's (HWEA), a component unit of the City of Hopkinsville, Kentucky, compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on HWEA's major federal program for the year ended June 30, 2025. HWEA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, HWEA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of HWEA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of HWEA's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to HWEA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HWEA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about HWEA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding HWEA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of HWEA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of HWEA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

York, Neel & Associates, LLP

Hopkinsville, Kentucky
December 10, 2025

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2025

Section I – Summary of Auditor's Results

1. The independent auditor's report expresses an unmodified opinion on whether the financial statements of Hopkinsville Water Environment Authority were prepared in accordance with generally accepted accounting principles.

2. No significant deficiencies relating to the audit of the financial statements are reported. No material weaknesses relating to the audit of the financial statements are reported.

3. No instances of noncompliance material to the financial statements of the Hopkinsville Water Environment Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies in internal control over the major federal award program are reported. No material weaknesses are reported.

5. The auditor's report on compliance for the major federal award program for the Hopkinsville Water Environment Authority expresses an unmodified opinion on the major federal program.

6. There are no findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this schedule.

7. The program tested as a major program was:

Name	ALN
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027

8. The threshold used for distinguishing between Types A and B programs was $750,000.

9. Hopkinsville Water Environment Authority did not qualify to be audited as a low-risk auditee.

Section II – Findings – Financial Statements Audit

There are no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Awards Program

There are no findings or questioned costs related to the major federal program which are required to be reported in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
DRINKING WATER, CLEAN WATER, AND GAS DEPARTMENTS
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2024

Section II – Findings – Financial Statements Audit

2024-01 **Condition:** Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger accounts.

Status of Prior Finding: Corrective action has been taken and bank statements are reconciled to the appropriate general ledger accounts in a timely manner.

2024-02 **Condition:** Customer accounts receivable subsidiary ledgers were not reconciled to the general ledger accounts in a timely manner, which led to there being several months' worth of billings and collections activity that was not reconciled until after a significant amount of time had passed.

Status of Prior Finding: Corrective action has been taken and customer accounts receivable are reconciled and reviewed on a monthly basis in a timely manner.

Section III – Findings and Questioned Costs – Major Federal Awards Program

There were no findings or questioned costs related to the major federal program which were required to be reported in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).