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DAMON R. TALLEY

ATTORNEY AT LAW

October 29, 2009

Mr. Jeff Derouen  
Executive Director  
Public Service Commission  
PO Box 615  
Frankfort, KY 40602

RE: Case No. 2009-00373  
Hopkinsville Water Environment Authority

RECEIVED

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PUBLIC SERVICE  
COMMISSION

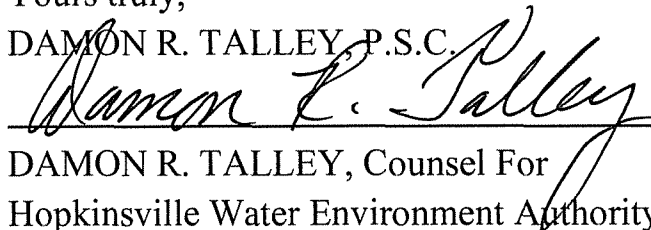
Dear Mr. Derouen:

Enclosed for filing are seven (7) copies of the Hopkinsville Water Environment Authority's Audit for each of the Fiscal Years ending on June 30, 2008, June 30, 2007, and June 30, 2006. These documents are being provided pursuant to Item 2 of the Commission's Information Request dated September 28, 2009. These documents are indexed as follows:

2008 Audit	Tab 1
2007 Audit	Tab 2
2006 Audit	Tab 3

Yours truly,

DAMON R. TALLEY, P.S.C.



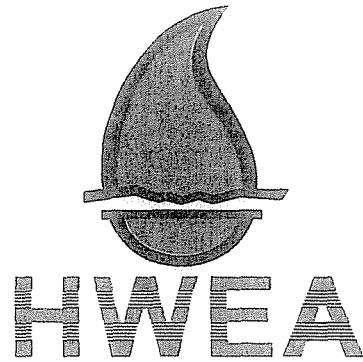
DAMON R. TALLEY, Counsel For  
Hopkinsville Water Environment Authority

DRT:ms

Enclosures

cc: Hon Jack Hughes, Attorney for CCWD  
James Owen, General Manager, CCWD  
Hopkinsville Water Environment Authority

# **TAB 1**



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
*Hopkinsville, Kentucky*

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2008 ANNUAL FINANCIAL REPORT

**HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2008

**COMMISSIONERS**

**Bob Carter, Chairman**

**Robert Babbage**

**Breck Cayce**

**Charles Turner**

**Paul Henson, Council Member**

**ATTORNEY**

**Jack Lackey**

**GENERAL MANAGER**

**Len F. Hale**

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

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements –	
Exhibit A – Statement of Net Assets	8
Exhibit B – Statement of Revenues, Expenses and Changes in Net Assets	10
Exhibit C – Statement of Cash Flows	11
Notes to Financial Statements	13
Supporting Schedules–	
Schedules –	
1 - Combining Statement of Net Assets	26
2 - Combining Statement of Revenues, Expenses and Changes in Net Assets	29
3 - Summary of Property, Plant and Equipment	30
4 - Summary of Sinking Fund Requirements	32
5 - Schedule of Operating Expenses	33
Schedule of Expenditures of Federal Awards	37
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	40
Schedule of Findings and Questioned Costs	42
Summary Schedule of Prior Audit Findings	43



**& CO. - HOPKINSVILLE, LLP**

FIRM ID # 61-1313802

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## 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

We have audited the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority, Water and Wastewater Departments (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the HWEA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the HWEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the HWEA, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hopkinsville Water Environment Authority's basic financial statements. The combining financial statements and other supplementary schedules presented on pages 26-36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Hopkinsville Water Environment Authority. The combining financial statements and other supplementary schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

York, Neal & Co. - Hopkinsville LLP

Hopkinsville, Kentucky  
November 17, 2008



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hopkinsville Water Environment Authority Water and Wastewater Department (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the fiscal years ending June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, and notes to the basic financial statements to enhance their understanding of financial performance.

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**FINANCIAL HIGHLIGHTS**

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- The HWEA's total assets increased by \$4.39 million while total liabilities increased \$4.45 million resulting in total net assets decreasing approximately \$56.6 thousand over the course of the year's operations.
- The HWEA's operating revenues decreased 1.62% in 2008, while operating expenses in 2008 increased approximately 6.76% over operating expenses for 2007.
- Investment income decreased by \$771,530 during the period, which is reflective of the HWEA's use of the bond proceeds to fund the Lake Barkley project.
- Interest expense on outstanding debt decreased \$63,576, which is reflective of the paying down of debt.

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**REQUIRED FINANCIAL STATEMENTS**

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The financial statements of the Hopkinsville Water Environment Authority 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 Assets includes all of the HWEA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the HWEA's creditors (liabilities). It also provides the basis for evaluating the capital structure of the HWEA and assessing the liquidity and financial flexibility of the HWEA.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the HWEA's operations over the past year and can be used to determine whether the HWEA has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**REQUIRED FINANCIAL STATEMENTS (cont.)**

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

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

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The most common financial question posed to the Hopkinsville Water Environment Authority is "How did we do financially during 2008?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the HWEA's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the HWEA's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the HWEA's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

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**NET ASSETS**

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

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

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 6,247	\$12,430	\$ (6,183)	(49.74)%
Capital Assets	<u>90,404</u>	<u>79,829</u>	<u>10,575</u>	<u>13.24 %</u>
Total Assets	96,651	92,259	4,392	4.76 %
Long-term Debt Outstanding	54,529	48,947	5,582	11.40 %
Other Liabilities	<u>2,108</u>	<u>3,241</u>	<u>(1,133)</u>	<u>(34.95)%</u>
Total Liabilities	56,637	52,188	4,449	8.52 %
Invested in Capital Assets, Net of Related Debt	35,119	29,055	6,064	20.87 %
Restricted	2,824	9,327	(6,503)	(69.72)%
Unrestricted	<u>2,071</u>	<u>1,689</u>	<u>382</u>	<u>22.61 %</u>
Total Net Assets	<u>\$40,014</u>	<u>\$40,071</u>	<u>\$ (57)</u>	<u>(0.14) %</u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

**NET ASSETS (cont.)**

As can be seen from the table above, net assets decreased \$56,608 during 2008. The overall decrease in net assets is primarily due to an increase in capital assets from both the Lake Barkley project and the acquisition of the Oak Grove sewer system coupled with a decrease in restricted assets that were used to fund the cost of the Lake Barkley project. Unexpected costs associated with the Lake Barkley project also contributed to the decrease in net assets.

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

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Dollar</u> <u>Change</u>	<u>Total</u> <u>Percent</u> <u>Change</u>
Operating revenues	\$ 9,536	\$ 9,693	\$ (157)	(1.61)%
Nonoperating revenues	<u>257</u>	<u>1,046</u>	<u>(789)</u>	<u>(75.43)%</u>
Total Revenues	9,793	10,739	(946)	(8.80)%
Depreciation expense	2,532	2,452	80	3.26%
Other operating expense	6,609	6,110	499	8.16%
Interest expense	<u>1,478</u>	<u>1,542</u>	<u>(64)</u>	<u>4.15%</u>
Total Expense	10,619	10,104	515	5.09%
Income/(Loss) Before Contributions and Transfers	(826)	635	(1,461)	
Capital Contributions	980	623	357	
Capital Credit to City	<u>(211)</u>	<u>(222)</u>	<u>11</u>	
Changes in Net Assets	<u>(57)</u>	<u>1,036</u>	<u>(1,093)</u>	
Beginning Net Assets	<u>40,071</u>	<u>39,035</u>	<u>1,036</u>	
Ending Net Assets	<u>\$ 40,014</u>	<u>\$ 40,071</u>	<u>\$ (57)</u>	

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

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**BUDGETARY HIGHLIGHTS**

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

**Table A-3**  
**Budget vs. Actual**  
**FY 2008**  
**(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Income	\$ 8,957	\$ 9,536	\$ 579
Non-operating income	3,608	1,238	(2,370)
Operating expense & depreciation	(8,848)	(9,142)	(294)
Non-operating expense	<u>(1,636)</u>	<u>(1,689)</u>	<u>(53)</u>
 Net Income	 <u>\$ 2,081</u>	 <u>\$ (57)</u>	 <u>\$ (2,138)</u>

The amount budgeted for non-operating income was significantly greater than actual non-operating revenue for the year. HWEA was anticipating that developers would have one of the major sewer projects finalized by year-end so that all assets associated with the project could be transferred to the HWEA for ongoing maintenance. However, at year-end, this project was not finished, and the assets were not transferred. As a result, income stemming from capital contributions from developers was significantly less than expected.

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**CAPITAL ASSETS**

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At the end of 2008, the HWEA had \$137.6 million invested in capital assets as shown in Table A-4. Construction in Process primarily represents the Lake Barkley Raw Water Intake Project and a seven-phase project to include sewer rehabilitation, pump station rehabilitation and sewer extensions. These construction projects are being financed, in part, by federally assisted low interest rate loans extended by the Kentucky Infrastructure Authority. The large increase to capital assets within the sewerage division stems from the acquisition of the Oak Grove sewer system.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Table A-4 Capital Assets				
	FY 2008	FY 2007	Dollar Change	Total Percent Change
Water	\$ 71,028,740	\$ 65,354,736	\$ 5,674,004	8.68%
Sewerage	66,555,936	59,122,756	7,433,180	12.57%
Sub-total	137,584,676	124,477,492	13,107,184	10.52%
Less: Accumulated Depreciation	(47,180,968)	(44,648,460)	(2,532,508)	5.67%
Net Property & Equipment	<u>\$90,403,708</u>	<u>\$ 79,829,032</u>	<u>\$10,574,676</u>	<u>13.24%</u>

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**DEBT ADMINISTRATION**

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

As noted in the discussion of Capital Assets, the KIA is currently making additional low interest rate loans available for the Lake Barkley Raw Water Intake Project and a seven-phase project to include sewer rehabilitation, pump station rehabilitation and sewer extensions. In addition, a significant portion of the 2005 bond issue has been set aside to complete the Intake Project and subsequent Raw Water Pipeline to the water treatment plant.

Also as mentioned in the discussion of Capital Assets, during the current year HWEA acquired the sewerage system of the City of Oak Grove, Kentucky. As part of the payment of the purchase price, the HWEA agreed to assume the debt relating to the City of Oak Grove sewerage system. The remainder of the purchase price is to be paid by the HWEA in cash over a period of time.

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

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**FINAL COMMENTS**

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

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE  
 STATEMENT OF NET ASSETS  
 June 30, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 969,859	\$ 662,778
Receivables	823,257	713,668
Inventory	246,314	246,541
Prepaid expenses	9,834	314,011
Total current assets	2,049,264	1,936,998
Restricted assets		
Cash and cash equivalents	2,824,414	9,326,964
Deferred charges	723,750	797,312
Notes receivable	650,027	368,551
Property, plant and equipment		
Property, plant and equipment	105,845,579	96,811,879
Unclassified plant - construction in progress, engineering fees, and other costs	31,739,097	27,665,613
Accumulated depreciation	(47,180,968)	(44,648,460)
Total assets	\$ 96,651,163	\$ 92,258,857

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE  
STATEMENT OF NET ASSETS (continued)  
June 30, 2008 and 2007

LIABILITIES AND EQUITY

	<u>2008</u>	<u>2007</u>
Current liabilities		
Current portion of long-term debt	\$ 1,291,117	\$ 1,105,510
Current portion of capital lease obligation	8,970	-
Due to Oak Grove (current portion)	788,020	-
Customer deposits	85,756	104,294
Accrued interest	15,581	16,842
Accounts payable	360,430	324,042
Accrued salaries and compensated absences	<u>144,827</u>	<u>131,858</u>
Total current liabilities	2,694,701	1,682,546
Payable from restricted assets		
Accounts payable, restricted	-	1,201,537
Current portion of long-term debt	1,151,216	2,046,655
Accrued interest on bonded indebtedness	264,702	278,519
Construction retainage payable	1,236,435	1,183,484
Long-term debt		
Revenue bonds payable (net of current portion)	25,510,000	25,800,000
KIA - loans payable (net of current portion)	21,374,711	19,824,803
KY Rural Finance loans payable (net of current portion)	2,070,000	-
Due to Oak Grove (net of current portion)	2,193,222	-
City of Crofton note payable	-	56,216
City of Hopkinsville loan payable	113,341	114,058
Capital lease obligation (net of current portion)	<u>28,404</u>	<u>-</u>
Total liabilities	<u>56,636,732</u>	<u>52,187,818</u>
Net assets		
Invested in capital assets, net of related debt	35,119,112	29,054,936
Net assets, restricted	2,824,414	9,326,964
Net assets, unrestricted	<u>2,070,905</u>	<u>1,689,139</u>
Total net assets	<u>40,014,431</u>	<u>40,071,039</u>
Total liabilities and net assets	<u>\$ 96,651,163</u>	<u>\$ 92,258,857</u>

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues		
Charges for services (net of allowances of \$88,539 and \$59,608 for 2008 and 2007, respectively)	\$ 9,270,328	\$ 9,468,864
Other operating revenue	<u>265,945</u>	<u>224,583</u>
Total operating revenues	<u>9,536,273</u>	<u>9,693,447</u>
Operating expenses		
Water source of supply	669,755	66,156
Water purification	960,258	1,237,209
Water distribution	621,288	569,160
Sewerage plant	1,180,408	1,235,059
Sewerage mains and laterals	217,594	171,674
Administrative and general	2,728,428	2,643,441
Technical services	231,348	187,761
Depreciation	<u>2,532,508</u>	<u>2,451,776</u>
Total operating expenses	<u>9,141,587</u>	<u>8,562,236</u>
Income from operations	<u>394,686</u>	<u>1,131,211</u>
Non-operating revenues (expenses)		
Interest revenues	255,879	1,027,409
Gain on sale of fixed assets	1,575	18,330
Interest expense	<u>(1,478,423)</u>	<u>(1,541,999)</u>
Total non-operating revenues (expenses)	<u>(1,220,969)</u>	<u>(496,260)</u>
Income (loss) before contributions and transfers	(826,283)	634,951
Capital contributions (capital assets provided by developers)	980,615	623,110
Capital credit to City (fire hydrants)	<u>(210,940)</u>	<u>(222,200)</u>
Change in Net Assets	(56,608)	1,035,861
Net Assets - beginning of year	<u>40,071,039</u>	<u>39,035,178</u>
Net Assets - end of year	<u>\$ 40,014,431</u>	<u>\$ 40,071,039</u>

See accompanying notes to financial statements.



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE  
STATEMENT OF CASH FLOWS  
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 9,142,201	\$ 9,336,660
Paid to suppliers for goods and services	(4,291,882)	(1,915,756)
Paid to employees for services - including benefits	(3,112,022)	(3,095,782)
Other operating revenue	<u>265,945</u>	<u>224,583</u>
Net cash flows from operating activities	<u>2,004,242</u>	<u>4,549,705</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(6,546,602)	(23,737,828)
Proceeds from disposition of fixed assets	1,575	18,330
Capital contribution	980,615	623,109
Capital credit payments	(210,940)	(222,200)
Proceeds of long-term debt	2,181,558	3,044,979
Principal paid on long-term debt	(3,160,380)	(3,074,292)
Interest paid on long-term debt	<u>(1,419,939)</u>	<u>(1,407,744)</u>
Net cash provided (used) by capital and related financing activities	<u>(8,174,113)</u>	<u>(24,755,646)</u>
<b>Cash flows from investing activities</b>		
Issuance of note receivable	(306,892)	-
Collection of note receivable	25,415	24,966
Interest earned on investments	<u>255,879</u>	<u>1,027,409</u>
Net cash provided (used) by investing activities	<u>(25,598)</u>	<u>1,052,375</u>
Net increase (decrease) in cash and cash equivalents	(6,195,469)	(19,153,566)
Cash and cash equivalents at beginning of year (includes restricted assets of \$9,326,964 and \$27,636,828 for 2008 and 2007, respectively)	<u>9,989,742</u>	<u>29,143,308</u>
Cash and cash equivalents at beginning of year (includes restricted assets of \$2,824,414 and \$9,326,964 for 2008 and 2007, respectively)	<u>\$ 3,794,273</u>	<u>\$ 9,989,742</u>

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE  
 STATEMENT OF CASH FLOWS (continued)  
 For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>		
Cash flows from operating activities		
Income from operations	\$ 394,686	\$ 1,131,211
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	2,532,508	2,451,776
Change in assets and liabilities		
Change in accounts receivable	(109,589)	(125,497)
Change in inventory	227	2,770
Change in prepaid expenses	304,177	(9,105)
Change in accounts payable	(1,165,149)	179,370
Change in customer deposits	(18,538)	(6,707)
Change in accrued salaries and compensated absences	12,969	684
Change in construction retainage payable	<u>52,951</u>	<u>925,203</u>
Net cash provided by operating activities	<u>\$ 2,004,242</u>	<u>\$ 4,549,705</u>
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the period for:		
Interest expense (net of \$0 and \$0 capitalized interest for 2008 and 2007, respectively)	<u>\$ 1,419,939</u>	<u>\$ 1,407,744</u>
Non-cash capital and related financing activities:		
Fixed assets acquired under capital leases	\$ 44,849	\$ -
Fixed assets acquired under other debt agreements	<u>6,515,732</u>	<u>-</u>
Total non-cash capital and related financing activities	<u>\$ 6,560,581</u>	<u>\$ -</u>

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

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

b. Basis of accounting

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of accounting, continued

- Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

c. Separate accounting

On December 17, 1992, the HWEA was approved for a low interest loan from the Kentucky Infrastructure Authority (KIA). Due to federal requirements under this loan program, the HWEA as of July 1, 1993, began accounting for the water and sewer systems separately. (See Supplemental Schedules and note disclosure number 14 for information on segment reporting.)

d. Cash and cash equivalents, deposits and investments

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

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

As security for deposits of the HWEA, any bank doing such business is generally required to pledge securities in an amount to exceed funds on deposit by the HWEA. In addition, the HWEA is insured under FDIC up to \$100,000.00 at each bank.

For purposes of the statement of cash flows, the HWEA considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

e. Inventories

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

f. Prepaid expenses

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

g. Restricted assets

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

h. Fixed assets

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives. Property, plant and equipment donated to the 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. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

i. Compensated absences

Accumulated unpaid vacation pay and other employee benefits amounts are accrued when incurred if significant at year-end. At June 30, 2008 and 2007, these liabilities included vacation pay of \$107,315 and \$108,278, respectively, to be taken as terminal pay upon retirement.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

j. Long-term debt

Bond discounts and issuance costs are deferred and reported as deferred charges on the statement of net assets. These costs are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. HWEA issued new bonds during 2005 and 2002, the proceeds of which were used to refund older bonds; and also in 2005, to provide funds for the Lake Barkley Raw Water Project. GASBS No. 23 requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense.

k. Capital Contributions

Contributed capital is recorded for receipt of capital grants or contributions from developers, customers or other sources.

l. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Unrestricted net assets represent the net assets available for future operations or distribution.

m. Estimates

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

2. RECEIVABLES

Net receivables included the following:

	2008	2007
Customer accounts receivable	\$633,568	\$692,759
Allowance for uncollectible	-0-	-0-
Miscellaneous receivables	189,689	20,909
Total receivables	\$823,257	\$713,668

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.

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

2. RECEIVABLES, continued

The HWEA has a note receivable from the Christian County Board of Education for installation of sewer lines, due in annual installments of \$32,049 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance of this receivable was \$343,135 and \$368,551 at June 30, 2008 and 2007, respectively.

The HWEA also has a note receivable from the Hopkinsville Industrial Foundation for the installation of sewer lines in the industrial park, due in semi-annual installments including interest at 1.0%, due April 1, 2027. The balance of this receivable was \$306,892 and \$0 at June 30, 2008 and 2007, respectively.

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

	<u>2008</u>	<u>2007</u>
Accounts charged off in current period	\$ 70,860	54,888
Recovery of accounts previously charged off	<u>(21,594)</u>	<u>(13,443)</u>
Net bad debts	<u>\$ 49,266</u>	<u>\$ 41,445</u>

3. INVENTORY

Inventory as of June 30, 2008 and 2007, consisted of materials and supplies with a cost of \$246,314 and \$246,541, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at June 30, 2008, is as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital Assets Not Being Depreciated:				
Land	\$ 881,734	\$ -	\$ -	\$ 881,734
Construction in progress	27,665,613	4,460,905	387,420	31,739,098
Capital Assets Being Depreciated:				
Structures and improvements	85,757,333	8,833,889	-	94,591,222
Equipment	9,525,115	125,832	-	9,650,947
Vehicles	647,697	73,979	-	721,676
Less Accumulated Depreciation:				
Structures and improvements	38,164,376	2,073,952	-	40,238,328
Equipment	5,916,234	422,956	-	6,339,190
Vehicles	<u>567,850</u>	<u>35,601</u>	<u>-</u>	<u>603,451</u>
Total	<u>\$ 79,829,032</u>	<u>\$ 10,962,096</u>	<u>\$ 387,420</u>	<u>\$ 90,403,708</u>

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

4. PROPERTY, PLANT AND EQUIPMENT, continued

Depreciation expense (including amortization of capitalized assets) for the years ended June 30, 2008 and June 30, 2007 was \$2,532,508 and \$2,451,776, respectively.

5. DEFERRED CHARGES

The selling costs and discounts associated with the issuance of the revenue bonds payable are being amortized on the straight-line method over the term of the bonds. Amortization expense charged to operations during 2008 and 2007 was \$73,562 and \$146,699, respectively.

6. LONG-TERM DEBT

Long-term debt at June 30 is as follows:

Revenue Bonds:	<u>Rate</u>	<u>2008</u>	<u>2007</u>
Series 1993 Maturing 2007	3.05% to 4.86%	\$ -	\$ 408,117
Series 1998 Maturing 2021	3.75% to 4.90%	855,000	-
Series 2002 Maturing 2007	1.50% to 3.40%	-	915,000
Series 2005 A Maturing 2026	3.375% to 4.00%	24,535,000	25,085,000
Series 2005 B Maturing 2017	3.00% to 3.750%	<u>1,265,000</u>	<u>1,385,000</u>
Total Bonded Indebtedness		<u>26,655,000</u>	<u>27,793,117</u>

KIA Loans:

KIA Fund A Wastewater-Maturing 2016	1.2%	3,921,494	4,418,274
KIA Fund B Water Plant-Maturing 2026	1.9%	3,331,834	3,485,757
KIA Fund A Phase II-Maturing 2018	1.8%	1,738,402	1,895,717
KIA Fund A Wastewater-Maturing 2017	1.2%	115,253	127,330
KIA Fund A Maturing 2020	0.4%	379,135	411,287
KIA Fund A Phase III-Maturing 2021	3.8%	592,388	628,811
KIA Fund A Phase IV-Maturing 2026	1.0%	4,167,160	4,384,021
KIA Fund C Wastewater-Maturing 2018	4.00% to 4.25%	525,000	-
KIA Fund F, Drinking Water (Maturity not established-loan not closed)	1.0%	1,513,593	1,513,593
KIA Fund A Phase V (Maturity not established-loan not closed)	1.0%	2,364,136	2,182,502
KIA Fund F Water (Maturity not established-loan not closed)	3.0%	<u>3,887,432</u>	<u>1,883,019</u>
Total KIA Loans		<u>22,535,827</u>	<u>20,930,311</u>



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

6. LONG-TERM DEBT, continued

KY Rural Finance-Maturing 2025	3.125% to 4.50%	512,500	-
KY Rural Finance-Maturing 2029	2.28% to 4.405%	1,637,500	-
Due to Oak Grove; due 2012	-	2,981,242	-
Capital lease obligation	5.0%	37,374	-
City of Hopkinsville-note payable	-	113,342	114,058
City of Crofton-note payable; due 2009	5.0%	<u>56,216</u>	<u>109,756</u>
Total debt		54,529,001	48,947,242
Maturities due within one year		<u>(3,239,323)</u>	<u>(3,152,165)</u>
Long-term debt		<u>\$51,289,678</u>	<u>\$45,795,077</u>

The revenue of the water and sewer system and the various special funds established by the bond ordinances collateralizes the Revenue 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. The HWEA is in compliance with all significant financial requirements as of June 30, 2008 and 2007.

The long-term debt obtained from the KIA is for the expansion and upgrade of the Wastewater Treatment System Fund A, a new Water Treatment Facility Fund B, and infrastructure to comply with the Safe Drinking Water Act Fund F. The loans are secured by the revenues of the HWEA but are subordinated to the existing revenue bonds.

On September 20, 1995, the HWEA secured a non-interest loan from the City. The loan is to be repaid quarterly in the amount of two (2) cents for each one thousand (1,000) gallons of water sold by it to any customer in Commerce Park.

During June 2008, the HWEA acquired the sewerage system of the City of Oak Grove, Kentucky for a purchase price of \$6,986,762. As part of the payment of the purchase price, the HWEA agreed to assume the debt relating to the City of Oak Grove sewerage system. The total debt assumed from the City of Oak Grove totaled \$3,530,000. The remainder of the purchase price was to be paid by the HWEA in the following manner: a payment of \$475,520 within thirty days of the execution of the contract and the remaining balance to be paid in annual installments over the next four years.

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

6. LONG-TERM DEBT, continued

During the year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Principal Outstanding July 1, 2007	Additions	Reductions	Principal Outstanding June 30, 2008	Due Within One Year
Revenue Bonds	\$ 27,793,117	\$ 855,000	\$ 1,993,117	\$ 26,655,000	\$ 1,145,000
Notes Payable	21,154,125	7,842,269	1,159,767	27,836,627	2,085,353
Capital lease	<u>-</u>	<u>44,870</u>	<u>7,496</u>	<u>37,374</u>	<u>8,970</u>
Total	<u>\$ 48,947,242</u>	<u>\$ 8,742,139</u>	<u>\$3,160,380</u>	<u>\$ 54,529,001</u>	<u>\$ 3,239,323</u>

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

	<u>2008</u>	<u>2007</u>
Bond and interest redemption fund	\$ 484,710	\$ 974,752
Depreciation fund	300,000	1,309,029
KIA maintenance and replacement reserve fund	773,455	773,682
Construction fund	1,242,763	6,247,071
Unemployment fund	<u>23,486</u>	<u>22,430</u>
Total restricted funds	<u>\$ 2,824,414</u>	<u>\$ 9,326,964</u>

Total interest expense for 2008 and 2007 was \$1,478,423 and \$1,541,999, respectively, of which all was expensed.

The annual debt service requirements to amortize long-term debt as of June 30, 2008, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 3,239,323	\$ 1,317,885	\$ 4,557,208
2010	3,250,472	1,266,607	4,517,079
2011	3,306,598	1,205,525	4,512,123
2012	3,201,655	1,141,747	4,343,402
2013	2,643,165	1,073,424	3,716,589
2014-2018	12,949,237	4,227,313	17,176,550
2019-2023	10,908,206	2,289,980	13,198,186
2024-2028	7,208,184	442,433	7,650,617
2029	<u>57,000</u>	<u>2,511</u>	<u>59,511</u>
Subtotal	\$46,763,840	\$12,967,425	\$ 59,731,265
Undetermined (loans not closed)	<u>7,765,161</u>		
Total requirements	<u>\$54,529,001</u>		

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

6. LONG-TERM DEBT, continued

Defeased Bonds Outstanding

In prior years, the HWEA issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The HWEA has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the 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. On June 30, 2008 and 2007, the amount of bonds outstanding considered defeased is undeterminable.

7. CAPITAL LEASE

On June 29, 2007, the HWEA entered into a capital lease agreement for a Panasonic phone system. The lease agreement is for a period of five years expiring on August 30, 2012, with a \$1 buyout option at the end of the lease period.

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

Equipment under Capital Leases	\$44,949
Less: Accumulated Depreciation	<u>3,371</u>
	<u>\$41,578</u>

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

The amounts of future lease payments for the next five years is as follows:

2009	\$ 8,970
2010	8,970
2011	8,970
2012	8,970
2013	<u>1,494</u>
	<u>\$ 37,374</u>

8. DEFINED BENEFIT PENSION PLAN

The HWEA participates in the statewide local government retirement system, which covers substantially all of the HWEA's employees by their election.

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

8. DEFINED BENEFIT PENSION PLAN, continued

**Plan Description.** The HWEA contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

**Funding policy.** Plan members are required to contribute 5% of their annual creditable compensation and the HWEA is required to contribute at an actuarially determined rate. The current rate is 16.17% of annual covered payroll. The contribution requirements of plan members and the HWEA are established and may be amended by the KRS Board of Trustees. The HWEA's contribution to CERS for the three years ended June 30, 2008, 2007, and 2006 was \$400,261, \$316,358, and \$264,839, respectively, and is equal to the required contribution for these years.

9. BUDGET

Bond ordinances require that the HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for the year ended June 30, 2008, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 8,956,830	\$ 9,536,273	\$ 579,443
Operating Expenses	(6,126,360)	(6,609,079)	(482,719)
Depreciation Expense	<u>(2,722,000)</u>	<u>(2,532,508)</u>	<u>189,492</u>
Operating Income	108,470	394,686	286,216
Non-Operating Revenues	3,608,220	1,238,069	(2,370,151)
Non-Operating Expenses	<u>(1,635,980)</u>	<u>(1,689,363)</u>	<u>(53,383)</u>
Net Income	<u>\$ 2,080,710</u>	<u>\$ (56,608)</u>	<u>\$ (2,137,318)</u>

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

**10. DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the HWEA's deposits may not be returned or the HWEA will not be able to recover collateral securities in the possession of an outside party. State law requires all of the HWEA's funds to be fully insured or collateralized. At year-end, the carrying amount of the HWEA's deposits was \$2,173,574 and the bank balance was \$2,121,241. Of the bank balance, \$200,000 was covered by federal depository insurance with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2008, none of the HWEA's deposited funds were exposed to custodial credit risk.

**11. CONTINGENCIES**

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

No accruals have been established for the matters noted above because the amount of possible loss or range of loss cannot be reasonably estimated. Management does not expect that such matters would have a material adverse affect on future financial statements for a particular year, although such an outcome is possible.

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.

**12. RISK MANAGEMENT**

The 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. The HWEA carries commercial insurance for these types of risk of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

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

12. RISK MANAGEMENT, continued

The 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. Premiums accrued for health insurance are based on the year-to-date claims experience of HWEA. At June 30, 2008, the claims liability was \$25,481. Changes in the claims liability during the last two fiscal years are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2006-2007	\$20,428	\$430,052	\$410,120	\$40,360
2007-2008	\$40,360	\$272,178	\$287,057	\$25,481

13. CONSTRUCTION COMMITMENT

At June 30, 2008, the HWEA had one material project pending, the Lake Barkley Raw Water Supply project. The total expenditures for the contract at the end of the year were approximately \$29.0 million with approximately \$250 thousand remaining for the project.

14. SEGMENT REPORTING

The HWEA has low interest loans from the Kentucky Infrastructure Authority (KIA) to finance its water and sewer departments. The two departments are accounted for in a single fund, but KIA relies solely on the revenue generated by the individual activities for repayment. The Water Department operates the water supply systems for Hopkinsville, Pembroke, and Crofton. The Sewer Department operates the sewage treatment plants, sewage pumping stations, and collection systems for Hopkinsville, Pembroke, Crofton, and Oak Grove.

Summary financial information for each department as of and for the year ended June 30, 2008 is presented below:

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

14. SEGMENT REPORTING, continued

	Water Department	Sewer Department
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Assets:		
Current assets	\$ 1,277,467	\$ 771,797
Capital assets	51,086,720	39,316,988
Other assets	2,762,964	1,435,227
Total assets	55,127,151	41,524,012
Liabilities:		
Current liabilities	524,480	2,170,221
Noncurrent liabilities	36,175,152	17,766,879
Total liabilities	36,699,632	19,937,100
Net assets:		
Invested in capital assets, net of related debt	15,470,591	19,648,521
Restricted	2,039,216	785,198
Unrestricted	917,712	1,153,193
Total net assets	\$ 18,427,519	\$ 21,586,912
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
Operating revenues (pledged against debt)	\$ 5,135,837	\$ 4,400,436
Depreciation expense	(951,412)	(1,581,096)
Other operating expenses	(3,771,789)	(2,837,290)
Operating income	412,636	(17,950)
Nonoperating revenues (expenses):		
Investment income	180,591	75,288
Other nonoperating income	788	787
Interest expense	(1,250,251)	(228,172)
Capital contributions	470,640	509,975
Transfers	(310,985)	100,045
Changes in net assets	(496,581)	439,973
Beginning net assets	18,924,101	21,146,938
Ending net assets	\$ 18,427,520	\$ 21,586,911
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided (used) by:		
Operating activities	\$ 347,383	\$ 1,656,859
Capital and related financing activities	(6,089,262)	(2,084,852)
Investing activities	(100,886)	75,288
Net increase (decrease)	(5,842,765)	(352,705)
Beginning cash and cash equivalents	8,352,612	1,637,130
Ending cash and cash equivalents	\$ 2,509,848	\$ 1,284,426

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2008**

**ASSETS**

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Current assets								
Cash								
Petty cash and change fund	\$ 1,200	\$ 1,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,400
Health claims fund	13,084	13,084	-	-	-	-	-	26,168
Employee reimbursement fund	8,048	-	-	-	-	-	-	8,048
Revenue fund	-	36,649	-	-	-	-	-	36,649
Operation and maintenance fund	<u>273,119</u>	<u>273,120</u>	<u>41,788</u>	<u>41,788</u>	<u>133,390</u>	<u>133,390</u>	<u>-</u>	<u>896,594</u>
Total cash	295,451	324,053	41,788	41,788	133,390	133,390	-	969,859
Receivables	527,147	199,896	7,421	6,055	16,123	10,559	56,056	823,257
Inventory	246,314	-	-	-	-	-	-	246,314
Prepaid expense	<u>9,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,834</u>
Total current assets	<u>1,078,746</u>	<u>523,949</u>	<u>49,209</u>	<u>47,843</u>	<u>149,513</u>	<u>143,949</u>	<u>56,056</u>	<u>2,049,264</u>
Restricted assets								
Bond and interest redemption fund								
Investments	484,709	-	-	-	-	-	-	484,709
Accrued interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>484,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>484,709</u>
Depreciation fund								
Investments	300,000	-	-	-	-	-	-	300,000
Accrued interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Equipment maintenance and replacement reserve								
Investments	-	765,032	-	-	-	-	-	765,032
Accrued interest	<u>-</u>	<u>8,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,423</u>
Subtotal	<u>\$ -</u>	<u>\$ 773,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,455</u>



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 COMBINING STATEMENT OF NET ASSETS (continued)  
 June 30, 2008**

**ASSETS (continued)**

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Restricted assets (continued)								
Construction fund								
Checking accounts	1,242,764	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,242,764
Retainage fund	-	-	-	-	-	-	-	-
Subtotal	<u>1,242,764</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,242,764</u>
Unemployment fund								
Investments	11,478	11,478	-	-	-	-	-	22,956
Accrued interest	265	265	-	-	-	-	-	530
Subtotal	<u>11,743</u>	<u>11,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,486</u>
Total restricted assets	<u>2,039,216</u>	<u>785,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,824,414</u>
Property, plant and equipment								
Property and plant	39,305,575	54,504,187	491,339	200,506	469,035	1,217,091	6,991,252	103,178,986
General plant	1,226,158	1,440,435	-	-	-	-	-	2,666,593
Unclassified plant	29,537,528	2,201,569	-	-	-	-	-	31,739,097
Less accumulated depreciation	70,069,261	58,146,191	491,339	200,506	469,035	1,217,091	6,991,252	137,584,676
	<u>19,756,546</u>	<u>26,414,907</u>	<u>61,402</u>	<u>129,208</u>	<u>124,968</u>	<u>678,208</u>	<u>15,729</u>	<u>47,180,968</u>
Net property, plant & equipment	<u>50,312,715</u>	<u>31,731,284</u>	<u>429,937</u>	<u>71,298</u>	<u>344,067</u>	<u>538,883</u>	<u>6,975,523</u>	<u>90,403,708</u>
Receivable - CCBE	-	343,135	-	-	-	-	-	343,135
Receivable - Hopk Ind. Fdn.	-	306,892	-	-	-	-	-	306,892
Receivable- Crofton division	273,000	-	-	-	-	-	-	273,000
	<u>273,000</u>	<u>650,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>923,027</u>
Deferred charges								
Fiscal agency fees - revenue bonds	310,382	-	-	-	-	-	-	310,382
Unamortized discount revenue bonds	413,368	-	-	-	-	-	-	413,368
Total deferred charges	<u>723,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>723,750</u>
Total assets	<u>\$ 54,427,426</u>	<u>\$ 33,690,458</u>	<u>\$479,146</u>	<u>\$ 119,141</u>	<u>\$493,579</u>	<u>\$ 682,832</u>	<u>\$7,031,579</u>	<u>\$ 96,924,163</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF NET ASSETS (continued)  
June 30, 2008**

**LIABILITIES AND EQUITY**

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Current liabilities								
Current portion of long-term debt	\$ 156,861	\$ 919,773	\$ -	\$ 12,202	\$ 16,140	\$ 16,141	\$ 170,000	\$ 1,291,117
Current portion of capital lease obligation	4,485	4,485	-	-	-	-	-	8,970
Due to Oak Grove (current portion)	-	-	-	-	-	-	788,020	788,020
Customer deposits	68,199	17,557	-	-	-	-	-	85,756
Accrued interest on KIA loans	5,830	9,445	-	115	95	95	-	15,580
Accounts payable	206,592	153,837	-	-	-	-	-	360,429
Accrued salaries and compensated absences	66,277	78,549	-	-	-	-	-	144,827
Total current liabilities	508,244	1,183,647	-	12,317	16,235	16,236	958,020	2,694,699
Payable from restricted assets								
Accounts payable	-	-	-	-	-	-	-	-
Current portion of long term-debt	1,095,000	-	-	-	28,108	28,108	-	1,151,216
Accrued interest on indebtedness	257,862	6,137	-	-	351	351	-	264,702
Construction retainage payable	1,211,863	24,572	-	-	-	-	-	1,236,435
Long-term debt								
Revenue bonds payable (net of current maturities)	24,705,000	-	-	-	-	-	805,000	25,510,000
KIA loans payable (net of current maturities)	8,575,998	11,863,807	-	103,052	173,427	173,428	485,000	21,374,711
KY Rural Finance loans payable (net of current maturities)	-	-	-	-	-	-	2,070,000	2,070,000
Due to Oak Grove (net of current portion)	-	-	-	-	-	-	2,193,222	2,193,222
Crofton division-note payable	-	-	-	-	273,000	-	-	273,000
City of Crofton-note payable (net of current maturities)	-	-	-	-	-	-	-	-
City of Hopkinsville-note payable	113,342	-	-	-	-	-	-	113,342
Capital lease obligation (net of current maturities)	14,202	14,202	-	-	-	-	-	28,404
Total liabilities	36,481,512	13,092,365	-	115,369	491,121	218,123	6,511,242	56,909,732
Net assets								
Invested in capital assets, net of related debt	14,914,709	18,907,550	429,937	(44,071)	125,946	320,760	464,281	35,119,112
Net assets, restricted	2,039,216	785,198	-	-	-	-	-	2,824,414
Net assets, unrestricted	991,990	905,345	49,209	47,843	(123,487)	143,949	56,056	2,070,905
Total net assets	17,945,914	20,598,092	479,146	3,772	2,459	464,709	520,337	40,014,431
Total liabilities and net assets	\$ 54,427,426	\$ 33,690,458	\$ 479,146	\$ 119,141	\$ 493,580	\$ 682,832	\$ 7,031,579	\$ 96,924,162

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
For the Year ended June 30, 2008**

	Hopkinsville		Pembroke		Crofton		Oak Grove	Totals
	Water	Sewer	Water	Sewer	Water	Sewer	Sewer	
Operating revenues	\$ 4,878,676	\$ 4,155,150	\$ 86,128	\$ 74,379	\$ 171,033	\$ 114,851	\$ 56,056	\$ 9,536,273
Operating expenses								
Water source of supply	669,755	-	-	-	-	-	-	669,755
Water purification	956,486	-	867	-	2,904	-	-	960,258
Water distribution	524,471	-	33,831	-	62,987	-	-	621,288
Sewerage plant	-	1,137,089	-	14,126	-	13,764	15,429	1,180,408
Sewerage mains and laterals	-	189,445	-	22,927	-	5,221	-	217,594
Administrative and general	1,390,241	1,315,478	5,122	3,999	8,363	5,226	-	2,728,428
Technical services	116,761	114,587	-	-	-	-	-	231,348
Depreciation	921,480	1,450,381	9,134	15,106	20,799	99,880	15,729	2,532,508
Total operating expenses	4,579,194	4,206,980	48,954	56,158	95,053	124,090	31,158	9,141,587
Income from operations	299,483	(51,830)	37,174	18,220	75,980	(9,239)	24,898	394,686
Non-operating revenues (expenses)								
Interest revenue	180,591	75,288	-	-	-	-	-	255,879
Gain (loss) on sale of fixed assets	788	787	-	-	-	-	-	1,575
Interest on bonded indebtedness	(1,246,640)	(222,835)	-	(1,726)	(3,611)	(3,611)	-	(1,478,423)
Total non-operating revenues (expenses)	(1,065,261)	(146,760)	-	(1,726)	(3,611)	(3,611)	-	(1,220,969)
Income (loss) before contributions and operating transfers	(765,778)	(198,590)	37,174	16,494	72,369	(12,850)	24,898	(826,283)
Capital contributions								
Capital assets provided by developers	470,642	509,973	-	-	-	-	-	980,615
Transfers (to) from								
Capital credit to City	(210,940)	-	-	-	-	-	-	(210,940)
Operating transfers in (out)	(405,885)	(205,201)	294,704	(193,901)	11,136	3,708	495,439	-
Net income	(911,962)	106,182	331,878	(177,407)	83,505	(9,142)	520,337	(56,608)
Net assets, beginning of year	18,857,879	20,491,908	147,268	181,179	(81,046)	473,851	-	40,071,039
Net assets, end of year	\$ 17,945,917	\$ 20,598,090	\$ 479,146	\$ 3,772	\$ 2,459	\$ 464,709	\$ 520,337	\$ 40,014,431

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SUMMARY OF PROPERTY, PLANT AND EQUIPMENT  
 June 30, 2008**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2008	
	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Balance June 30, 2007	Additions	Retirements		Balance June 30, 2008
<i>Water</i>									
Land	\$ 540,285	\$ -	-	\$ 540,285	\$ -	\$ -	\$ -	\$ -	\$ 540,285
Structures	2,805,743	72,739	-	2,878,482	1,191,508	67,272	-	1,258,780	1,619,701
Elevated tanks	2,472,323	531,489	-	3,003,812	1,430,852	52,850	-	1,483,702	1,520,110
Transmission mains	196,595	-	-	196,595	186,520	2,239	-	188,759	7,836
Distribution mains	13,838,587	713,583	-	14,552,170	5,827,995	260,588	-	6,088,583	8,463,587
Services	2,288,559	82,098	-	2,370,657	1,070,526	48,366	-	1,118,892	1,251,765
Meters and installation	2,282,226	64,739	-	2,346,965	1,949,212	63,230	-	2,012,442	334,522
Hydrants	829,650	53,018	-	882,668	376,340	19,133	-	395,473	487,195
Purification structures	7,498,045	-	-	7,498,045	2,330,941	148,924	-	2,479,865	5,018,180
Purification equipment	4,563,786	14,274	-	4,578,060	2,923,781	171,804	-	3,095,585	1,482,475
Cast iron pipe lines	44,436	-	-	44,436	39,417	772	-	40,189	4,247
Electric pumping equipment	413,148	-	-	413,148	250,141	13,876	-	264,017	149,131
Auxiliary power units	128,790	-	-	128,790	128,790	-	-	128,790	-
Quarry - raw water supply	784,872	3,988	-	788,860	350,525	31,204	-	381,729	407,131
Interest during construction	42,977	-	-	42,977	27,833	739	-	28,572	14,405
<b>Total water plant</b>	<b>38,730,022</b>	<b>1,535,928</b>	<b>-</b>	<b>40,265,950</b>	<b>18,084,381</b>	<b>880,998</b>	<b>-</b>	<b>18,965,379</b>	<b>21,300,572</b>
<i>General</i>									
Transportation equipment	277,086	-	-	277,086	237,174	17,481	-	254,655	22,431
Tractors & backhoes	114,590	-	-	114,590	52,193	9,852	-	62,045	52,545
General equipment	290,891	2,455	-	293,346	195,918	10,690	-	206,608	86,733
Office furniture and fixtures	136,149	23,579	-	159,728	130,028	3,341	-	133,369	26,359
Two-way radio equipment	10,604	1,272	-	11,876	9,190	1,509	-	10,699	1,177
Computer equipment	353,947	15,585	-	369,532	282,620	27,542	-	310,162	59,369
<b>Total general plant</b>	<b>1,183,267</b>	<b>42,891</b>	<b>-</b>	<b>1,226,158</b>	<b>907,123</b>	<b>70,415</b>	<b>-</b>	<b>977,538</b>	<b>248,619</b>
<i>Unclassified plant</i>									
Construction in progress	25,441,447	4,426,837	331,652	29,536,632	-	-	-	-	29,536,632
<b>Total water plant</b>	<b>\$ 65,354,736</b>	<b>\$ 6,005,656</b>	<b>\$ 331,652</b>	<b>\$ 71,028,740</b>	<b>\$ 18,991,504</b>	<b>\$ 951,413</b>	<b>\$ -</b>	<b>\$ 19,942,917</b>	<b>\$ 51,085,823</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY OF PROPERTY, PLANT AND EQUIPMENT (continued)  
June 30, 2008**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2008	
	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Balance June 30, 2007	Additions	Retirements		Balance June 30, 2008
<b>SEWERAGE</b>									
Land	\$ 341,449	\$ -	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	1,308,165	2,050,918	-	3,359,083	596,002	35,514	-	631,516	2,727,567
Wastewater treatment plants									
Northside	8,861,435	22,714	-	8,884,149	5,187,595	224,401	-	5,411,996	3,472,153
Hammond-Wood	11,611,800	22,485	-	11,634,285	5,690,449	358,970	-	6,049,419	5,584,866
Machinery and equipment	2,614,220	10,928	-	2,625,148	1,438,422	118,145	-	1,556,567	1,068,580
Pumping stations	2,469,370	476,999	-	2,946,369	1,244,992	118,418	-	1,363,410	1,582,959
Mains and laterals	28,120,620	4,739,119	-	32,859,739	10,431,307	622,551	-	11,053,858	21,805,881
Interest during construction	173,140	-	-	173,140	46,169	4,329	-	50,498	122,642
Total sewerage plant	<u>55,500,199</u>	<u>7,323,163</u>	<u>-</u>	<u>62,823,362</u>	<u>24,634,936</u>	<u>1,482,329</u>	<u>-</u>	<u>26,117,265</u>	<u>36,706,097</u>
<b>General</b>									
Transportation equipment	370,611	73,979	-	444,590	330,676	18,120	-	348,796	95,794
Tractors & backhoes	45,625	-	-	45,625	45,625	-	-	45,625	-
General equipment	504,163	18,598	-	522,761	176,104	38,471	-	214,575	308,186
Office furniture and fixtures	131,716	23,579	-	155,295	124,998	3,428	-	128,426	26,869
Two-way radio equipment	10,604	1,272	-	11,876	9,544	1,156	-	10,700	1,176
Computer equipment	335,672	14,290	-	349,962	277,670	23,142	-	300,812	49,150
Total general plant	<u>1,398,391</u>	<u>131,718</u>	<u>-</u>	<u>1,530,109</u>	<u>964,617</u>	<u>84,317</u>	<u>-</u>	<u>1,048,934</u>	<u>481,175</u>
<b>Unclassified plant</b>									
Engineering fees	144,502	-	-	144,502	57,403	14,450	-	71,853	72,649
Construction in progress	2,079,664	34,068	55,768	2,057,964	-	-	-	-	2,057,964
Total sewer plant	<u>\$ 59,122,756</u>	<u>\$ 7,488,949</u>	<u>\$ 55,768</u>	<u>\$ 66,555,937</u>	<u>\$ 25,656,956</u>	<u>\$ 1,581,096</u>	<u>\$ -</u>	<u>\$ 27,238,052</u>	<u>\$ 39,317,885</u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SUMMARY OF SINKING FUND REQUIREMENTS  
 June 30, 2008

Bonds Due Fiscal Year	1993	1998	2002	2005 A	2005 B	Total Debt Service
2009	-	80,015	-	1,904,314	159,963	2,144,292
2010	-	88,195	-	1,905,818	166,213	2,160,226
2011	-	88,483	-	1,906,139	162,312	2,156,934
2012	-	88,633	-	1,904,605	163,337	2,156,575
2013	-	88,644	-	1,905,405	164,037	2,158,086
2014	-	88,513	-	1,903,645	164,316	2,156,474
2015	-	93,223	-	1,904,893	164,244	2,162,360
2016	-	97,531	-	1,902,600	163,809	2,163,940
2017	-	96,450	-	1,901,600	163,000	2,161,050
2018	-	97,690	-	1,903,500	-	2,001,190
2019	-	98,648	-	1,903,200	-	2,001,848
2020	-	99,360	-	1,905,600	-	2,004,960
2021	-	49,825	-	1,905,600	-	1,955,425
2022	-	-	-	1,903,200	-	1,903,200
2023	-	-	-	1,903,300	-	1,903,300
2024	-	-	-	1,900,800	-	1,900,800
2025	-	-	-	1,905,500	-	1,905,500
2026	-	-	-	1,902,300	-	1,902,300
	<u>\$ -</u>	<u>\$ 1,155,210</u>	<u>\$ -</u>	<u>\$ 34,272,019</u>	<u>\$ 1,471,231</u>	<u>\$ 36,898,460</u>

The sinking fund reserve requirement is the maximum total debt service on bonds due in future years. Therefore, the sinking fund reserve requirement as of June 30, 2008 is \$2,163,940. The HWEA is setting aside funds to meet this requirement.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES  
 For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Water Source of Supply</b>				
Labor	\$ 5,526	0.06%	\$ 5,193	0.05%
Supplies	401,485	4.24%	394	0.00%
Utilities	251,680	2.66%	52,952	0.56%
Grounds and maintenance	11,064	0.12%	7,617	0.08%
	669,755	7.07%	66,156	0.70%
<b>Water Purification</b>				
Supervision	44,993	0.48%	48,875	0.52%
Labor	268,890	2.84%	294,929	3.11%
Chemicals	263,784	2.79%	461,239	4.87%
Maintenance to structures	1,910	0.02%	4,144	0.04%
Maintenance to equipment	15,905	0.17%	24,003	0.25%
Supplies	5,185	0.05%	15,120	0.16%
Maintenance to reservoirs and tanks	837	0.01%	192	0.00%
Utilities	280,272	2.96%	298,401	3.15%
Training and education	3,500	0.04%	798	0.01%
Laboratory work	44,030	0.46%	57,883	0.61%
Laboratory supplies and expense	22,656	0.24%	20,571	0.22%
Plant security	40	0.00%	-	0.00%
Grounds and maintenance	2,414	0.03%	4,329	0.05%
Transportation expense	5,484	0.06%	6,149	0.06%
Miscellaneous	359	0.00%	576	0.01%
	960,258	10.14%	1,237,209	13.06%
<b>Water Distribution</b>				
Supervision	58,695	0.62%	54,519	0.58%
Labor	259,351	2.74%	237,784	2.51%
Supplies	112,137	1.18%	106,808	1.13%
Repairs to structures	263	0.00%	-	0.00%
Repairs to distribution mains	59,894	0.63%	45,057	0.48%
Repairs to services	7,157	0.08%	12,935	0.14%
Repair to meters	1,527	0.02%	1,206	0.01%
Removing and resetting meters	48,097	0.51%	47,826	0.50%
Repairs to fire hydrants	3,111	0.03%	954	0.01%
Transportation expense	39,265	0.41%	30,181	0.32%
Gas, oil, tires, etc-tractor/compressor	12,949	0.14%	18,111	0.19%
Grounds and maintenance	11,741	0.12%	10,381	0.11%
Training, education and licenses	6,474	0.07%	1,382	0.01%
Small tools	594	0.01%	2,016	0.02%
Miscellaneous	35	0.00%	-	0.00%
	621,288	6.56%	569,150	6.01%
	\$2,251,301	23.77%	\$ 1,872,525	19.77%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES (continued)  
 For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	<u>\$ 2,251,301</u>	<u>23.77%</u>	<u>\$ 1,872,525</u>	<u>19.77%</u>
<b>Water Technical Services</b>				
Labor	107,268	1.13%	84,794	0.90%
Supplies	1,716	0.02%	1,766	0.02%
Training, education and licenses	1,023	0.01%	494	0.01%
Transportation expense	5,954	0.06%	4,049	0.04%
Miscellaneous	<u>800</u>	<u>0.01%</u>	<u>399</u>	<u>0.00%</u>
Total water technical services	<u>116,761</u>	<u>1.23%</u>	<u>91,502</u>	<u>0.97%</u>
<b>Water Administrative and General</b>				
Commissioners' fees	5,500	0.06%	3,000	0.03%
Office salaries	333,797	3.52%	315,917	3.34%
Meter reading and collecting salaries	45,558	0.48%	49,208	0.52%
Employee benefits	608,828	6.43%	616,107	6.51%
Office supplies	31,530	0.33%	33,392	0.35%
Postage	15,291	0.16%	22,679	0.24%
Telephone	17,060	0.18%	16,522	0.17%
Insurance and bonds	158,932	1.68%	152,453	1.61%
Professional services	19,102	0.20%	30,928	0.33%
Safety program	34,463	0.36%	32,063	0.34%
Office building maintenance	36,513	0.39%	31,139	0.33%
Bad debts, net	33,480	0.35%	24,920	0.26%
Training, education and licenses	4,137	0.04%	990	0.01%
Transportation expense	13,734	0.15%	10,488	0.11%
Rez rebate payments	12,500	0.13%	-	0.00%
Miscellaneous	<u>33,303</u>	<u>0.35%</u>	<u>31,388</u>	<u>0.33%</u>
Total water administrative and general	<u>1,403,727</u>	<u>14.82%</u>	<u>1,371,194</u>	<u>14.48%</u>
Total water operating expense other than depreciation	<u><u>\$ 3,771,790</u></u>	<u><u>39.82%</u></u>	<u><u>\$ 3,335,221</u></u>	<u><u>35.21%</u></u>



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES (continued)  
 For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Wastewater Treatment Plant</b>				
Supervision	\$ 8,741	0.09%	\$ 51,332	0.54%
Labor	269,295	2.84%	258,594	2.73%
Chemicals and materials	18,204	0.19%	37,354	0.39%
Supplies and tools	10,116	0.11%	12,797	0.14%
Lights, power, water, and fuel oil	467,795	4.94%	433,210	4.57%
Transportation expense	24,389	0.26%	20,470	0.22%
Repairs - machinery and equipment	29,067	0.31%	29,138	0.31%
Repairs - buildings	3,586	0.04%	3,746	0.04%
Maintenance of pump stations	137,750	1.45%	135,648	1.43%
Laboratory work	98,499	1.04%	92,726	0.98%
Laboratory supplies and expense	20,144	0.21%	17,204	0.18%
Permit - pretreatment compliance	42,795	0.45%	40,590	0.43%
Sludge disposal	47,724	0.50%	102,125	1.08%
Training, education and licenses	2,073	0.02%	125	0.00%
Miscellaneous	230	0.00%	-	0.00%
	<u>1,180,408</u>	<u>12.46%</u>	<u>1,235,059</u>	<u>13.04%</u>
<b>Wastewater Mains and Laterals</b>				
Supervision	40,695	0.43%	35,693	0.38%
Labor	80,482	0.85%	70,176	0.74%
Supplies and tools	33,820	0.36%	40,184	0.42%
Repairs - mains and laterals	20,084	0.21%	11,894	0.13%
Repairs - truck and sewerage equipment	2,433	0.03%	175	0.00%
Gas, oil, and tires	30,219	0.32%	4,786	0.05%
Developer rebates	9,860	0.10%	8,766	0.09%
	<u>217,594</u>	<u>2.30%</u>	<u>171,674</u>	<u>1.81%</u>
<b>Wastewater Technical Services</b>				
Labor	103,798	1.10%	89,504	0.95%
Supplies	3,068	0.03%	1,766	0.02%
Training, education and licenses	966	0.01%	494	0.01%
Transportation expense	5,955	0.06%	4,063	0.04%
Miscellaneous	800	0.01%	432	0.00%
	<u>114,587</u>	<u>1.21%</u>	<u>96,259</u>	<u>1.02%</u>
Subtotal carried forward	<u>\$ 1,512,589</u>	<u>15.97%</u>	<u>\$ 1,502,992</u>	<u>15.87%</u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES (continued)  
 For the Years Ended June 30, 2008 and 2007

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>% of Net Revenues</u>	<u>Amount</u>	<u>% of Net Revenues</u>
Subtotal carried forward	<u>\$ 1,512,589</u>	<u>15.97%</u>	<u>\$ 1,502,992</u>	<u>15.87%</u>
<b>Sewerage Administrative and General</b>				
Commissioners' fees	5,500	0.06%	3,000	0.03%
Office salaries	330,251	3.49%	312,997	3.30%
Meter reading and collecting salaries	45,587	0.48%	48,647	0.51%
Labor - camera crew	4,787	0.05%	6,767	0.07%
Employee benefits	497,450	5.25%	516,196	5.45%
Office supplies	31,550	0.33%	33,486	0.35%
Postage	15,291	0.16%	22,683	0.24%
Telephone	17,007	0.18%	16,008	0.17%
Insurance and bonds	160,501	1.69%	152,453	1.61%
Professional services	54,670	0.58%	29,934	0.32%
Office building maintenance	36,514	0.39%	31,140	0.33%
Bad debts, net	26,480	0.28%	23,988	0.25%
Training, education and licenses	4,137	0.04%	990	0.01%
Safety program	35,242	0.37%	31,993	0.34%
Transportation expense	13,734	0.15%	10,529	0.11%
Rez rebate payments	12,500	0.13%	-	0.00%
Miscellaneous	<u>33,500</u>	<u>0.35%</u>	<u>31,436</u>	<u>0.33%</u>
Total sewer administrative and general	<u>1,324,701</u>	<u>13.99%</u>	<u>1,272,247</u>	<u>13.43%</u>
Total sewerage operating expense other than depreciation	<u><u>\$2,837,290</u></u>	<u><u>29.96%</u></u>	<u><u>\$2,775,239</u></u>	<u><u>29.30%</u></u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Total Disbursements/ Expenditures	Adjustments	Federal Disbursements/ Expenditures
<u>Loan</u>					
U.S. Environmental Protection Agency:					
DWSRF Pass-through from the State of Kentucky Infrastructure Authority*	66.468	LOAN-F06-02	\$ 1,969,167	\$ (368,042)	\$ 1,601,125
CWSRF Pass-through from the State of Kentucky Infrastructure Authority	66.458	LOAN-A04-05	29,764	209,745	239,509
<i>Total Federal Expenditures for the period.</i>					\$ 1,840,634

\*Denotes major program

**NOTE A - BASIS OF PRESENTATION**

This schedule of expenditures of federal awards includes the federal grant activity of Hopkinsville Water Environment Authority, a component unit of the City of Hopkinsville, Kentucky. This schedule is presented on the cash basis of accounting, due to the nature of the federal programs reported upon. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**& CO. - HOPKINSVILLE, LLP**

FIRM ID # 61-1313802

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JOHN M. DeANGELIS, CPA  
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**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 the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the HWEA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HWEA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HWEA's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HWEA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the HWEA's financial statements that is more than inconsequential will not be prevented or detected by the HWEA's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the HWEA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, the commission members of the HWEA, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

York, Neel & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky  
November 17, 2008



& CO. - HOPKINSVILLE, LLP

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The HWEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the HWEA's management. Our responsibility is to express an opinion on the HWEA's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the HWEA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the HWEA's compliance with those requirements.

In our opinion, the HWEA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## Internal Control Over Compliance

The management of the Hopkinsville Water Environment Authority (HWEA) is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the HWEA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HWEA's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, management, the commission members of the HWEA, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

York, Neel & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky  
November 17, 2008

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2008

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Hopkinsville Water Environment Authority (HWEA).
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the HWEA were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program includes Environmental Protection Agency as Passed Through the Kentucky Infrastructure Authority Drinking Water State Revolving Fund.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Hopkinsville Water Environment Authority (HWEA) was determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

*U.S. ENVIRONMENTAL PROTECTION AGENCY*  
Pass-through from Kentucky Infrastructure Authority  
Drinking Water State Revolving Fund

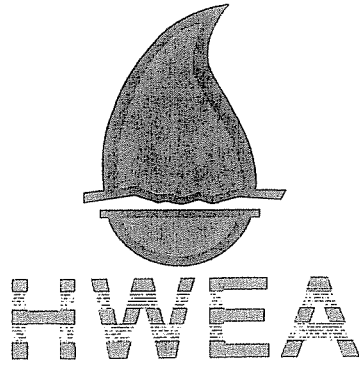
None



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the year ended June 30, 2008

The Hopkinsville Water Environment Authority had no prior audit findings.

# TAB 2



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
*Hopkinsville, Kentucky*

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2007 ANNUAL FINANCIAL REPORT

**HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2007

COMMISSIONERS

Bob Carter, Chairman

Robert Babbage

Breck Cayce

Charles Turner

Wesley Grimes, Council Member

ATTORNEY

Jack Lackey

GENERAL MANAGER

Len F. Hale

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

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements –	
Exhibit A – Statement of Net Assets	8
Exhibit B – Statement of Revenues, Expenses and Changes in Net Assets	10
Exhibit C – Statement of Cash Flows	11
Notes to Financial Statements	13
Supporting Schedules–	
Schedules –	
1 - Combining Statement of Net Assets	23
2 - Combining Statement of Revenues, Expenses and Changes in Net Assets	26
3 - Summary of Property, Plant and Equipment	27
4 - Summary of Sinking Fund Requirements	29
5 - Schedule of Operating Expenses	30
Schedule of Expenditure of Federal Awards	34
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	37
Schedule of Findings and Questioned Costs	39
Summary Schedule of Prior Audit Findings	40



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KERRY T. FORT, CPA

## 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

We have audited the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority, Water and Wastewater Departments (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2007 and 2006, which collectively comprise the HWEA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the HWEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the HWEA, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hopkinsville Water Environment Authority's basic financial statements. The combining financial statements and other supplementary schedules presented on pages 23-33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Hopkinsville Water Environment Authority. The combining financial statements and other supplementary schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

York Neel + Co. Hopkinsville, LLP

Hopkinsville, Kentucky  
November 19, 2007



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hopkinsville Water Environment Authority Water and Wastewater Department (HWEA) is presenting the following discussion and analysis in order to provide an overall review of financial activities for the fiscal years ending June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, and notes to the basic financial statements to enhance their understanding of financial performance.

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**FINANCIAL HIGHLIGHTS**

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- The HWEA's total assets increased by \$2.09 million while total liabilities increased \$1.06 million resulting in total net assets increasing approximately \$1.04 million over the course of the year's operations.
  
- The HWEA's operating revenues increased 4.84% in 2007, while operating expenses in 2007 increased approximately 6.49% over operating expenses for 2006.
  
- Investment income decreased by \$124,996 during the period, which is reflective of the HWEA's use of the bond proceeds to fund the Lake Barkley project.
  
- Interest expense on outstanding debt decreased \$187,325, which is reflective of the paying down of debt.

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**REQUIRED FINANCIAL STATEMENTS**

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The financial statements of the Hopkinsville Water Environment Authority 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 Assets includes all of the HWEA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the HWEA's creditors (liabilities). It also provides the basis for evaluating the capital structure of the HWEA and assessing the liquidity and financial flexibility of the HWEA.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the HWEA's operations over the past year and can be used to determine whether the HWEA has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**REQUIRED FINANCIAL STATEMENTS (cont.)**

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

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

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The most common financial question posed to the Hopkinsville Water Environment Authority is "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the HWEA's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the HWEA's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the HWEA's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

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**NET ASSETS**

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

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

	<u>FY 2007</u>	<u>FY 2006</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$12,430	\$31,623	\$(19,193)	(60.69)%
Capital Assets	<u>79,829</u>	<u>58,543</u>	<u>21,286</u>	<u>36.36%</u>
Total Assets	92,259	90,166	2,093	2.32%
Long-term Debt Outstanding	48,947	48,977	(30)	(.06)%
Other Liabilities	<u>3,241</u>	<u>2,154</u>	<u>1,087</u>	<u>50.46%</u>
Total Liabilities	52,188	51,131	1,057	2.07%
Invested in Capital Assets, Net of Related Debt	29,055	9,273	19,782	213.33%
-Restricted	9,327	27,637	(18,310)	(66.25)%
-Unrestricted	<u>1,689</u>	<u>2,125</u>	<u>(436)</u>	<u>(20.52)%</u>
Total Net Assets	<u>\$40,071</u>	<u>\$39,035</u>	<u>\$ 1,036</u>	<u>2.65%</u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET ASSETS (cont.)

As can be seen from the table above, net assets increased \$1,035,861 during 2006. The increase in net assets is primarily due to the increase in capital assets combined with a decrease in restricted assets that were used to fund the purchase of the capital assets.

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

	<u>FY 2007</u>	<u>FY 2006</u>	<u>Dollar</u> <u>Change</u>	<u>Total</u> <u>Percent</u> <u>Change</u>
Operating revenues	\$ 9,471	\$ 9,034	\$ 437	4.84%
Nonoperating revenues	<u>1,046</u>	<u>1,152</u>	<u>(106)</u>	<u>9.20%</u>
Total Revenues	10,517	10,186	331	3.25%
Depreciation expense	2,452	2,372	80	3.37%
Other operating expense	6,110	5,668	442	7.80%
Interest expense	<u>1,542</u>	<u>1,729</u>	<u>(187)</u>	<u>10.82%</u>
Total Expense	10,104	9,769	335	3.43%
Income/(Loss) Before Capital				
Contributions	413	417	(4)	
Capital Contributions	<u>623</u>	<u>356</u>	<u>267</u>	
Changes in Net Assets	<u>1,036</u>	<u>773</u>	<u>263</u>	
Beginning Net Assets	<u>39,035</u>	<u>38,262</u>	<u>773</u>	
Ending Net Assets	<u>\$ 40,071</u>	<u>\$ 39,035</u>	<u>\$ 1,036</u>	

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

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**BUDGETARY HIGHLIGHTS**

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

Table A-3  
 Budget vs. Actual  
 FY 2007  
 (000's)

	Budget	Actual	Variance
Operating Income	\$ 9,171	\$ 9,471	\$ 300
Non-operating income	1,247	1,669	422
Operating expense & depreciation	(8,093)	(8,562)	(469)
Non-operating expense	(1,543)	(1,542)	1
Net Income	\$ 782	\$ 1,036	\$ 254

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**CAPITAL ASSETS**

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At the end of 2007, the HWEA had \$124.5 million invested in capital assets as shown in Table A-4. Construction in Process primarily represents the Lake Barkley Raw Water Intake Project and a seven-phase project to include sewer rehabilitation, pump station rehabilitation and sewer extensions. These construction projects are being financed, in part, by federally assisted low interest rate loans extended by the Kentucky Infrastructure Authority.

Table A-4  
 Capital Assets

	FY 2007	FY 2006	Dollar Change	Total Percent Change
Water	\$ 65,354,736	\$ 43,223,653	\$22,131,083	51.20%
Sewerage	59,122,756	57,577,585	1,545,171	2.68%
Sub-total	124,477,492	100,801,238	23,676,254	23.49%
Less: Accumulated Depreciation	(44,648,460)	(42,258,259)	(2,390,201)	5.66%
Net Property & Equipment	\$ 79,829,032	\$ 58,542,979	\$21,286,053	36.36%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**DEBT ADMINISTRATION**

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The revenues of the water and sewer systems collateralize outstanding revenue bonds. After operation and maintenance expenses are paid, the ordinances specify that revenue bond funds be established and maintained. HWEA is in compliance with all bond ordinances. Debt obtained from the Kentucky Infrastructure Authority is for the purposes of upgrading and expanding the water and sewer systems. More detailed information about the HWEA's long-term liabilities is presented in Note 6 to the financial statements.

As noted in the discussion of Capital Assets, the KIA is currently making additional low interest rate loans available for the Lake Barkley Raw Water Intake Project and a seven-phase project to include sewer rehabilitation, pump station rehabilitation and sewer extensions. In addition, a significant portion of the 2005 bond issue has been set aside to complete the Intake Project and subsequent Raw Water Pipeline to the water treatment plant.

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**FINAL COMMENTS**

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

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS  
 June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 662,778	\$ 1,506,480
Receivables	713,668	588,171
Inventory	246,541	249,311
Prepaid expenses	<u>314,011</u>	<u>304,906</u>
Total current assets	1,936,998	2,648,868
Restricted assets		
Cash and cash equivalents	9,326,964	27,636,828
Deferred charges	797,312	944,011
Note receivable	368,551	393,517
Property, plant and equipment		
Property, plant and equipment	96,811,879	94,697,665
Unclassified plant – construction in progress, engineering fees, and other costs	27,665,613	6,103,573
Accumulated depreciation	<u>(44,648,460)</u>	<u>(42,258,259)</u>
Total assets	<u>\$ 92,258,857</u>	<u>\$ 90,166,203</u>

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENT OF NET ASSETS (continued)  
June 30, 2007 and 2006

LIABILITIES AND EQUITY

	<u>2007</u>	<u>2006</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,105,510	\$ 875,449
Customer deposits	104,294	111,001
Accrued interest	16,842	18,081
Accounts payable	324,042	564,969
Accrued salaries and compensated absences	<u>131,858</u>	<u>131,174</u>
Total current liabilities	1,682,546	1,700,674
<b>Payable from restricted assets</b>		
Accounts payable, restricted assets	1,201,537	781,240
Current portion of long-term debt	2,046,655	1,996,089
Accrued interest on bonded indebtedness	278,519	289,724
Construction retainage payable	1,183,484	258,281
<b>Long-term debt</b>		
Revenue bonds payable (net of current portion)	25,800,000	27,793,116
KIA – loans payable (net of current portion)	19,824,803	18,087,174
City of Crofton note payable	56,216	109,756
City of Hopkinsville-loan payable	<u>114,058</u>	<u>114,971</u>
Total liabilities	<u>52,187,818</u>	<u>51,131,025</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	29,054,936	9,272,865
Net assets, restricted	9,326,964	27,636,828
Net assets, unrestricted	<u>1,689,139</u>	<u>2,125,485</u>
Total net assets	<u>40,071,039</u>	<u>39,035,178</u>
Total liabilities and net assets	<u>\$92,258,857</u>	<u>\$90,166,203</u>

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Charges for services (net of allowances of \$59,608 and \$47,296 for 2007 and 2006, respectively)	\$ 9,468,864	\$ 8,860,991
Other operating revenue	<u>224,583</u>	<u>173,338</u>
Total operating revenues	<u>9,693,447</u>	<u>9,034,329</u>
Operating expenses		
Water source of supply	66,156	50,091
Water purification	1,237,209	1,216,171
Water distribution	569,160	561,512
Sewerage plant	1,235,059	1,150,538
Sewerage mains and laterals	171,674	156,243
Administrative and general	2,643,441	2,354,539
Technical services	187,761	179,408
Depreciation	<u>2,451,776</u>	<u>2,371,873</u>
Total operating expenses	<u>8,562,236</u>	<u>8,040,375</u>
Income from operations	<u>1,131,211</u>	<u>993,954</u>
Non-operating revenues (expenses)		
Interest revenues	1,027,409	1,152,405
Gain on sale of fixed assets	18,330	-
Interest expense	<u>(1,541,999)</u>	<u>(1,729,324)</u>
Total non-operating revenues (expenses)	<u>(496,260)</u>	<u>(576,919)</u>
Income (loss) before contributions and transfers	634,951	417,035
Capital contributions (capital assets provided by developers)	623,110	355,667
Capital credit to City (fire hydrants)	<u>(222,200)</u>	<u>-</u>
Change in Net Assets	1,035,861	772,702
Net Assets -- beginning of the year	<u>39,035,178</u>	<u>38,262,476</u>
Net Assets -- end of the year	<u>\$40,071,039</u>	<u>\$39,035,178</u>

See accompanying notes to financial statements.



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
STATEMENT OF CASH FLOWS  
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 9,336,660	\$ 8,958,584
Paid to suppliers for goods and services	(1,915,756)	(2,193,192)
Paid to employees for services-including benefits	(3,095,782)	(2,806,683)
Other operating revenue	<u>224,583</u>	<u>173,338</u>
Net cash flows from operating activities	<u>4,549,705</u>	<u>4,132,047</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(23,737,828)	(4,246,448)
Proceeds from disposition of fixed assets	18,330	-
Capital contribution	623,109	355,667
Capital credit	(222,200)	-
Proceeds of long-term debt	3,044,979	1,251,474
Principal paid on long-term debt	(3,074,292)	(2,195,173)
Interest paid on long-term debt	<u>(1,407,744)</u>	<u>(1,517,884)</u>
Net cash provided (used) by capital and related financing activities	<u>\$(24,755,646)</u>	<u>\$ (6,352,364)</u>
<b>Cash flows from investing activities</b>		
Collection of note receivable	24,966	24,524
Interest earned on investments	<u>1,027,409</u>	<u>1,152,405</u>
Net cash provided (used) by investing activities	<u>1,052,375</u>	<u>1,176,929</u>
Net increase (decrease) in cash and cash equivalents	(19,153,566)	(1,043,388)
Cash and cash equivalents at beginning of year (includes restricted assets of \$27,636,828 and \$28,558,239 for 2007 and 2006, respectively)	<u>29,143,308</u>	<u>30,186,696</u>
Cash and cash equivalents at end of year (includes restricted assets of \$9,326,964 and \$27,636,828 for 2007 and 2006, respectively)	<u>\$ 9,989,742</u>	<u>\$ 29,143,308</u>

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF CASH FLOWS (continued)  
 For the years ended June 30, 2007 and 2006

	2007	2006
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>		
<b>Cash flows from operating activities</b>		
Income from operations	\$ 1,131,211	\$ 993,954
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	2,451,776	2,371,873
Change in assets and liabilities		
Change in accounts receivable	(125,497)	95,412
Change in inventory	2,770	(59,101)
Change in prepaid expenses	(9,105)	(304,906)
Change in accounts payable	179,370	932,860
Change in customer deposits	(6,707)	2,180
Change in accrued salaries and compensated absences	684	(70,152)
Change in construction retainage payable	925,203	169,927
Net cash provided by operating activities	<u>\$ 4,549,705</u>	<u>\$ 4,132,047</u>
 <b><u>Supplemental Disclosures of Cash Flows Information</u></b>		
Cash paid during the period for:		
Interest expense (net of \$0 and \$0 capitalized interest for 2007 and 2006, respectively)	\$ 1,407,744	\$ 1,517,884

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

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

b. Basis of accounting

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of accounting, continued

- Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

c. Separate accounting

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

d. Cash and cash equivalents, deposits and investments

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

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

As security for deposits of the HWEA, any bank doing such business is generally required to pledge securities in an amount to exceed funds on deposit by the HWEA. In addition, the HWEA is insured under FDIC up to \$100,000.00 at each bank.

For purposes of the statement of cash flows, the HWEA considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

e. Inventories

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

f. Prepaid expenses

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

g. Restricted assets

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

h. Fixed assets

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives. Property, plant and equipment donated to the 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. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

i. Compensated absences

Accumulated unpaid vacation pay and other employee benefits amounts are accrued when incurred if significant at year-end. At June 30, 2007 and 2006, these liabilities included vacation pay of \$108,278 and \$108,534, respectively, to be taken as terminal pay upon retirement.

j. Long-term debt

Bond discounts and issuance costs are deferred and reported as deferred charges on the statement of net assets. These costs are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. HWEA issued new bonds during 2005 and 2002, the proceeds of which were used to refund older bonds; and also in 2005, to provide funds for the Lake Barkley Raw Water Project. GASBS No. 23 requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Capital Contributions

Contributed capital is recorded for receipt of capital grants or contributions from developers, customers or other sources.

l. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Unrestricted net assets represent the net assets available for future operations or distribution.

m. Estimates

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

2. RECEIVABLES

Net receivables included the following:

	2007	2006
Customer accounts receivable	\$713,668	\$588,171
Allowance for uncollectible	-0-	-0-

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.

The HWEA has a note receivable from the Christian County Board of Education for installation of sewer lines, due in annual installments of \$33,118 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance of this receivable was \$368,551 and \$393,517 at June 30, 2007 and 2006, respectively.

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

2. RECEIVABLES, continued

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

	2007	2006
Accounts charged off in current period	\$ 54,888	65,315
Recovery of accounts previously charged off	(13,443)	(14,921)
Net bad debts	\$ 41,445	\$ 50,394

3. INVENTORY

Inventory as of June 30, 2007 and 2006, consisted of materials and supplies with a cost of \$246,541 and \$249,311, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment as of June 30:

	2007	2006	Life (Years)
Water System	\$ 38,730,022	\$ 37,776,492	10 - 50
Sewer System	55,500,199	54,696,708	20 - 50
General Plant	2,581,658	2,224,465	4 - 10
	96,811,879	94,697,665	
Unclassified Plant	27,665,613	6,103,573	
Total property, plant, and equipment	\$124,477,492	\$100,801,238	

Depreciation expense (including amortization of capitalized assets) for the years ended June 30, 2007 and June 30, 2006 was \$2,451,776 and \$2,371,873, respectively.

5. DEFERRED CHARGES

The selling costs and discounts associated with the issuance of the revenue bonds payable are being amortized on the straight-line method over the term of the bonds. Amortization expense charged to operations during 2007 and 2006 was \$146,699 and \$146,700, respectively.

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

6. LONG-TERM DEBT

Long-term debt at June 30 is as follows:

Revenue Bonds:	<u>Rate</u>	<u>2007</u>	<u>2006</u>
Series 1993 Maturing 2007	3.54% to 4.86%	\$ 408,117	\$ 758,215
Series 2002 Maturing 2007	1.50% to 3.40%	915,000	1,845,000
Series 2005 A Maturing 2026	3.375% to 4.00%	25,085,000	25,635,000
Series 2005 B Maturing 2017	3.00% to 3.625%	<u>1,385,000</u>	<u>1,500,000</u>
 Total Bonded Indebtedness		 <u>27,793,117</u>	 <u>29,738,215</u>
 KIA Loans:			
KIA Fund A Wastewater-Maturing 2016	1.2%	4,418,274	4,909,146
KIA Fund B Water Plant-Maturing 2026	1.9%	3,485,757	3,636,796
KIA Fund A Phase II-Maturing 2018	1.8%	1,895,717	2,050,239
KIA Fund A Wastewater-Maturing 2017	1.2%	127,330	141,474
KIA Fund A -Maturing 2020	0.4%	411,287	443,311
KIA Fund A Phase III-Maturing 2021	3.8%	628,811	663,888
KIA Fund A Phase IV-Maturing 2026	1%	4,384,021	4,267,637
KIA Fund F, Drinking Water (Maturity not established-loan not closed)	1%	1,513,593	1,513,593
KIA Fund A Phase V (Maturity not established-loan not closed)	1%	2,182,502	1,336,540
KIA Fund F Water (Maturity not established-loan not closed)	3%	<u>1,883,019</u>	<u>-</u>
 Total KIA Loans		 <u>20,930,311</u>	 <u>18,962,624</u>
City of Hopkinsville-note payable	-	114,058	114,971
City of Crofton-note payable; due 2009	5%	<u>109,756</u>	<u>160,745</u>
 Total debt		 48,947,242	 48,976,555
 Maturities due within one year		 <u>(3,152,165)</u>	 <u>(2,871,538)</u>
 Long-term debt		 <u>\$45,795,077</u>	 <u>\$46,105,017</u>



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

6. LONG-TERM DEBT, continued

The revenue of the water and sewer system and the various special funds established by the bond ordinances collateralizes the Revenue 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. The HWEA is in compliance with all significant financial requirements as of June 30, 2007 and 2006.

The long-term debt obtained from the KIA is for the expansion and upgrade of the Wastewater Treatment System Fund A, a new Water Treatment Facility Fund B, and infrastructure to comply with the Safe Drinking Water Act Fund F. The loans are secured by the revenues of the HWEA but are subordinated to the existing revenue bonds.

On September 20, 1995, the HWEA secured a non-interest loan from the City. The loan is to be repaid quarterly in the amount of two (2) cents for each one thousand (1,000) gallons of water sold by it to any customer in Commerce Park.

During the year ended June 30, 2007, the following changes occurred in long-term liabilities:

	Principal Outstanding <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2007</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 29,738,215	\$ -	\$1,945,098	\$ 27,793,117	\$ 1,993,117
Notes Payable	<u>19,238,340</u>	<u>3,044,979</u>	<u>1,129,194</u>	<u>21,154,125</u>	<u>1,159,048</u>
Total	<u>\$ 48,976,555</u>	<u>\$ 3,044,979</u>	<u>\$3,074,292</u>	<u>\$ 48,947,242</u>	<u>\$ 3,152,165</u>

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

	<u>2007</u>	<u>2006</u>
Bond and interest redemption fund	\$ 974,752	\$ 1,057,649
Depreciation fund	1,309,029	1,306,063
KIA maintenance and replacement reserve fund	773,682	771,422
Construction fund	6,247,071	24,480,368
Unemployment fund	<u>22,430</u>	<u>21,326</u>
Total restricted funds	<u>\$ 9,326,964</u>	<u>\$27,636,828</u>

Total interest for 2007 and 2006 was \$1,541,999 and \$1,729,324, respectively, of which all was expensed.

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

6. LONG-TERM DEBT, continued

The annual requirements to amortize long-term debt as of June 30, 2007, including interest payments are as follows:

2008	\$ 4,402,145
2009	3,449,224
2010	3,397,954
2011	3,394,371
2012	3,393,862
2013-2017	16,144,113
2018-2022	12,404,082
2023-2026	9,400,178
Undetermined (loans not closed)	5,693,172
Less interest	<u>(12,731,859)</u>
	<u>\$48,947,242</u>

Defeased Bonds Outstanding

In prior years, the HWEA issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The HWEA has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the 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. On June 30, 2007 and 2006, the amount of bonds outstanding considered defeased is undeterminable.

7. DEFINED BENEFIT PENSION PLAN

The HWEA participates in the statewide local government retirement system, which covers substantially all of the HWEA's employees by their election.

**Plan Description.** The HWEA contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

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

7. DEFINED BENEFIT PENSION PLAN, continued

Funding policy. Plan members are required to contribute 5% of their annual creditable compensation and the HWEA is required to contribute at an actuarially determined rate. The current rate is 13.19% of annual covered payroll. The contribution requirements of plan members and the HWEA are established and may be amended by the KRS Board of Trustees. The HWEA's contribution to CERS for the three years ended June 30, 2007, 2006, and 2005 was \$316,358, \$264,839, and \$184,789, respectively, and is equal to the required contribution for these years.

8. BUDGET

Bond ordinances require that the HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for year ended June 30, 2007, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 9,171,080	\$ 9,693,447	\$ 522,367
Operating Expenses	(5,700,750)	(6,110,460)	(409,710)
Depreciation Expense	<u>(2,392,530)</u>	<u>(2,451,776)</u>	<u>(59,246)</u>
Operating Income	1,077,800	1,131,211	53,411
Non-Operating Revenues	1,246,500	1,668,849	422,349
Non-Operating Expenses	<u>(1,542,590)</u>	<u>(1,764,199)</u>	<u>(221,609)</u>
Net Income	<u>\$ 781,710</u>	<u>\$ 1,035,861</u>	<u>\$ 254,151</u>

9. DEPOSITS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the HWEA's deposits may not be returned or the HWEA will not be able to recover collateral securities in the possession of an outside party. State law requires all of the HWEA's funds to be fully insured or collateralized. At year-end, the carrying amount of the HWEA's deposits was \$6,871,682 and the bank balance was \$1,971,237. Of the bank balance, \$200,000 was covered by federal depository insurance with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2007, none of the HWEA's deposited funds were exposed to custodial credit risk.

10. CONTINGENCIES

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

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

10. CONTINGENCIES, continued

No accruals have been established for the matters noted above because the amount of possible loss or range of loss cannot be reasonably estimated. Management does not expect that such matters would have a material adverse affect on future financial statements for a particular year, although such an outcome is possible.

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.

11. RISK MANAGEMENT

The 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. The 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.

The 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. Premiums accrued for health insurance are based on the year-to-date claims experience of HWEA. At June 30, 2007, the claims liability was \$40,360. Changes in the claims liability during the last year is as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Fiscal Year</u>
2006-2007	\$20,428	\$430,052	\$410,120	\$40,360

12. CONSTRUCTION COMMITMENT

At June 30, 2007, the HWEA had one material project pending, the Lake Barkley Raw Water Supply project. The total expenditures for the contract at the end of the year was approximately \$25.1 million with approximately \$3.4 million remaining for the project.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 COMBINING STATEMENT OF NET ASSETS  
 June 30, 2007**

**ASSETS**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
<b>Current assets</b>							
Cash							
Petty cash and change fund	\$ 1,200	\$ 1,200	\$ -	\$ -	\$ -	\$ -	\$ 2,400
Health claims fund	5,464	5,464	-	-	-	-	10,928
Employee reimbursement fund	6,996	-	-	-	-	-	6,996
Revenue fund	-	35,768	-	-	-	-	35,768
Operation and maintenance fund	<u>123,886</u>	<u>123,886</u>	<u>88,787</u>	<u>88,787</u>	<u>90,670</u>	<u>90,670</u>	<u>606,686</u>
Total cash	137,546	166,318	88,787	88,787	90,670	90,670	662,778
Receivables	415,073	258,080	8,255	5,988	15,992	10,280	713,668
Inventory	246,541	-	-	-	-	-	246,541
Prepaid expense	<u>157,005</u>	<u>157,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>314,011</u>
Total current assets	<u>956,165</u>	<u>581,404</u>	<u>97,042</u>	<u>94,775</u>	<u>106,662</u>	<u>100,950</u>	<u>1,936,998</u>
<b>Restricted assets</b>							
Bond and interest redemption fund							
Investments	968,935	5,817	-	-	-	-	974,752
Accrued interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>968,935</u>	<u>5,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>974,752</u>
Depreciation fund							
Investments	807,747	500,000	-	-	-	-	1,307,747
Accrued interest	<u>641</u>	<u>641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,282</u>
Subtotal	<u>808,388</u>	<u>500,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,309,029</u>
Equipment maintenance and replacement reserve							
Investments	-	765,032	-	-	-	-	765,032
Accrued interest	<u>-</u>	<u>8,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,650</u>
Subtotal	<u>\$ -</u>	<u>\$ 773,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,682</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF NET ASSETS (continued)  
June 30, 2007**

**ASSETS (continued)**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
Restricted assets (continued)							
Construction fund							
Checking accounts	6,247,071	-	\$ -	\$ -	\$ -	\$ -	\$ 6,247,071
Retainage fund	-	-	-	-	-	-	-
Subtotal	<u>6,247,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,247,071</u>
Unemployment fund							
Investments	11,103	11,103	-	-	-	-	22,206
Accrued interest	112	112	-	-	-	-	224
Subtotal	<u>11,215</u>	<u>11,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,430</u>
Total restricted assets	<u>8,035,609</u>	<u>1,291,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,326,964</u>
Property, plant and equipment							
Property and plant	38,033,296	54,082,603	229,953	200,506	466,772	1,217,091	94,230,221
General plant	1,183,268	1,398,390	-	-	-	-	2,581,658
Unclassified plant	<u>25,441,447</u>	<u>2,224,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,665,613</u>
Less accumulated depreciation	64,658,011	57,705,159	229,953	200,506	466,772	1,217,091	124,477,492
	<u>18,835,067</u>	<u>24,959,974</u>	<u>52,268</u>	<u>114,102</u>	<u>104,169</u>	<u>582,880</u>	<u>44,648,460</u>
Net property, plant & equipment	<u>45,822,944</u>	<u>32,745,185</u>	<u>177,685</u>	<u>86,404</u>	<u>362,603</u>	<u>634,211</u>	<u>79,829,032</u>
Receivable - CCBE	-	368,551	-	-	-	-	368,551
Receivable- Crofton division	<u>289,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>289,000</u>
	<u>289,000</u>	<u>368,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>657,551</u>
Deferred charges							
Fiscal agency fees - revenue bonds	330,004	-	-	-	-	-	330,004
Unamortized discount revenue bonds	<u>450,423</u>	<u>16,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>467,308</u>
Total deferred charges	<u>780,427</u>	<u>16,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>797,312</u>
Total assets	<u>\$ 55,884,145</u>	<u>\$ 35,003,380</u>	<u>\$274,727</u>	<u>\$181,179</u>	<u>\$469,265</u>	<u>\$ 735,161</u>	<u>\$ 92,547,857</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF NET ASSETS (continued)  
June 30, 2007**

**LIABILITIES AND EQUITY**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
Current liabilities							
Current portion of long-term debt	\$ 153,923	\$ 907,379	\$ 12,056	\$ -	\$ 16,076	\$ 16,076	\$ 1,105,510
Customer deposits	79,148	25,146	-	-	-	-	104,294
Accrued interest on KIA loans	6,100	10,409	127	-	103	103	16,842
Accounts payable	202,432	121,610	-	-	-	-	324,042
Accrued salaries and compensated absences	61,301	70,557	-	-	-	-	131,858
Total current liabilities	502,904	1,135,101	12,183	-	16,179	16,179	1,682,546
Payable from restricted assets							
Accounts payable	1,201,537	-	-	-	-	-	1,201,537
Current portion of long term-debt	1,352,615	640,500	-	-	26,770	26,770	2,046,655
Accrued interest on indebtedness	265,500	11,647	-	-	686	686	278,519
Construction retainage payable	1,061,206	122,278	-	-	-	-	1,183,484
Long-term debt							
Revenue bonds payable (net of current maturities)	25,800,000	-	-	-	-	-	25,800,000
KIA loan payable (net of current maturities)	6,728,446	12,601,946	115,276	-	189,568	189,568	19,824,803
Crofton division-note payable	-	-	-	-	289,000	-	289,000
City of Crofton-note payable (net of current maturities)	-	-	-	-	28,108	28,108	56,216
City of Hopkinsville-note payable	114,058	-	-	-	-	-	114,058
Total liabilities	37,026,266	14,511,472	127,459	-	550,311	261,311	52,476,818
Net assets							
Invested in capital assets, net of related debt	9,919,986	18,467,911	50,226	86,404	129,401	401,009	29,054,936
Net assets, restricted	8,035,609	1,291,355	-	-	-	-	9,326,964
Net assets, unrestricted	902,284	732,642	97,042	94,775	(210,446)	72,842	1,689,139
Total net assets	18,857,879	20,491,908	147,268	181,179	(81,046)	473,851	40,071,039
Total liabilities and net assets	\$ 55,884,145	\$ 35,003,380	\$ 274,727	\$ 181,179	\$ 469,265	\$ 735,161	\$ 92,547,857

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
For the Year ended June 30, 2007**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
Operating revenues	\$ 4,878,272	\$ 4,364,499	\$ 88,684	\$ 77,834	\$ 169,264	\$ 114,894	\$ 9,693,447
Operating expenses							
Water source of supply	66,156	-	-	-	-	-	66,156
Water purification	1,234,904	-	423	-	1,882	-	1,237,209
Water distribution	487,212	-	26,308	-	55,640	-	569,160
Sewerage plant	-	1,209,749	-	12,165	-	13,145	1,235,059
Sewerage mains and laterals	-	133,917	-	27,738	-	10,019	171,674
Administrative and general	1,358,125	1,262,051	4,684	3,664	8,385	6,532	2,643,441
Technical services	91,502	96,259	-	-	-	-	187,761
Depreciation	904,371	1,424,953	6,233	15,106	16,308	84,805	2,451,776
Total operating expenses	<u>4,142,270</u>	<u>4,126,929</u>	<u>37,648</u>	<u>58,673</u>	<u>82,215</u>	<u>114,501</u>	<u>8,562,236</u>
Income from operations	<u>736,002</u>	<u>237,570</u>	<u>51,036</u>	<u>19,161</u>	<u>87,049</u>	<u>393</u>	<u>1,131,211</u>
Non-operating revenues (expenses)							
Interest revenue	927,526	99,883	-	-	-	-	1,027,409
Gain (loss) on sale of fixed assets	9,000	9,330	-	-	-	-	18,330
Interest on bonded indebtedness	<u>(1,235,029)</u>	<u>(297,307)</u>	<u>-</u>	<u>333</u>	<u>(4,998)</u>	<u>(4,998)</u>	<u>(1,541,999)</u>
Total non-operating revenues (expenses)	<u>(298,503)</u>	<u>(188,094)</u>	<u>-</u>	<u>333</u>	<u>(4,998)</u>	<u>(4,998)</u>	<u>(496,260)</u>
Income (loss) before contributions and operating transfers	437,499	49,476	51,036	19,494	82,051	(4,605)	634,951
Capital contributions							
Capital assets provided by developers	388,526	234,584	-	-	-	-	623,110
Transfers (to) from							
Capital credit to City	(222,200)	-	-	-	-	-	(222,200)
Operating transfers in (out)	<u>17,634</u>	<u>340,810</u>	<u>(158,024)</u>	<u>38,970</u>	<u>(121,431)</u>	<u>(117,959)</u>	<u>-</u>
Net income	621,459	624,870	(106,988)	58,464	(39,380)	(122,564)	1,035,861
Net assets, beginning of year	<u>18,236,420</u>	<u>19,867,038</u>	<u>254,256</u>	<u>122,715</u>	<u>(41,666)</u>	<u>596,415</u>	<u>39,035,178</u>
Net assets, end of year	<u>\$ 18,857,879</u>	<u>\$ 20,491,908</u>	<u>\$ 147,268</u>	<u>\$ 181,179</u>	<u>\$ (81,046)</u>	<u>\$ 473,851</u>	<u>\$ 40,071,039</u>



**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SUMMARY OF PROPERTY, PLANT AND EQUIPMENT  
 June 30, 2007**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2007	
	Balance June 30, 2006.	Additions	Retirements	Balance June 30, 2007	Balance June 30, 2006	Additions	Retirements		Balance June 30, 2007
<b>Water</b>									
Land	\$ 525,248	\$ 15,037	-	\$ 540,285	\$ -	\$ -	\$ -	\$ -	\$ 540,285
Structures	2,746,438	59,305	-	2,805,743	1,133,203	58,305	-	1,191,508	1,614,235
Elevated tanks	2,451,398	20,925	-	2,472,323	1,380,652	50,200	-	1,430,852	1,041,471
Transmission mains	196,595	-	-	196,595	184,281	2,239	-	186,520	10,075
Distribution mains	13,278,554	560,033	-	13,838,587	5,577,771	250,224	-	5,827,995	8,010,592
Services	2,167,573	120,986	-	2,288,559	1,024,699	45,827	-	1,070,526	1,218,033
Meters and installation	2,190,556	91,670	-	2,282,226	1,887,096	62,116	-	1,949,212	333,014
Hydrants	763,304	66,346	-	829,650	358,140	18,200	-	376,340	453,310
Purification structures	7,496,910	1,135	-	7,498,045	2,182,060	148,881	-	2,330,941	5,167,104
Purification equipment	4,555,953	7,833	-	4,563,786	2,752,659	171,122	-	2,923,781	1,640,005
Cast iron pipe lines	44,436	-	-	44,436	38,645	772	-	39,417	5,019
Electric pumping equipment	402,888	10,260	-	413,148	236,778	13,363	-	250,141	163,007
Auxiliary power units	128,790	-	-	128,790	128,790	-	-	128,790	-
Quarry - raw water supply	784,872	-	-	784,872	319,686	30,839	-	350,525	434,347
Interest during construction	42,977	-	-	42,977	27,094	739	-	27,833	15,144
<b>Total water plant</b>	<b>37,776,492</b>	<b>953,530</b>	<b>-</b>	<b>38,730,022</b>	<b>17,231,554</b>	<b>852,827</b>	<b>-</b>	<b>18,084,381</b>	<b>20,645,641</b>
<b>General</b>									
Transportation equipment	265,805	11,281	-	277,086	217,962	19,212	-	237,174	39,912
Tractors & backhoes	71,417	68,966	25,793	114,590	69,518	8,468	25,793	52,193	62,397
General equipment	286,942	3,949	-	290,891	185,635	10,283	-	195,918	94,973
Office furniture and fixtures	136,149	-	-	136,149	127,489	2,539	-	130,028	6,121
Two-way radio equipment	10,604	-	-	10,604	7,069	2,121	-	9,190	1,414
Computer equipment	342,132	11,815	-	353,947	251,156	31,464	-	282,620	71,327
<b>Total general plant</b>	<b>1,113,049</b>	<b>96,011</b>	<b>25,793</b>	<b>1,183,267</b>	<b>858,829</b>	<b>74,087</b>	<b>25,793</b>	<b>907,123</b>	<b>276,144</b>
<b>Unclassified plant</b>									
Construction in progress	4,334,112	21,461,342	354,007	25,441,447	-	-	-	-	25,441,447
<b>Total water plant</b>	<b>\$ 43,223,653</b>	<b>\$22,510,883</b>	<b>\$ 379,800</b>	<b>\$ 65,354,736</b>	<b>\$ 18,090,383</b>	<b>\$ 926,914</b>	<b>\$ 25,793</b>	<b>\$ 18,991,504</b>	<b>\$ 46,363,232</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY OF PROPERTY, PLANT AND EQUIPMENT (continued)  
June 30, 2007**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2007	
	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007	Balance June 30, 2006	Additions	Retirements		Balance June 30, 2007
<b>SEWERAGE</b>									
Land	\$ 326,412	\$ 15,037	\$ -	\$ 341,449	\$ -	\$ -	\$ -	\$ -	\$ 341,449
Buildings	1,252,603	55,562	-	1,308,165	570,061	25,941	-	596,002	712,163
Wastewater treatment plants									
Northside	8,793,750	67,685	-	8,861,435	4,966,176	221,419	-	5,187,595	3,673,840
Hammond-Wood	11,579,541	32,259	-	11,611,800	5,334,014	356,435	-	5,690,449	5,921,351
Machinery and equipment	2,614,220	-	-	2,614,220	1,320,154	118,268	-	1,438,422	1,175,798
Pumping stations	2,355,782	113,588	-	2,469,370	1,135,163	109,829	-	1,244,992	1,224,378
Mains and laterals	27,601,261	519,359	-	28,120,620	9,834,443	596,864	-	10,431,307	17,689,313
Interest during construction	173,140	-	-	173,140	41,840	4,329	-	46,169	126,971
<b>Total sewerage plant</b>	<b>54,696,709</b>	<b>803,490</b>	<b>-</b>	<b>55,500,199</b>	<b>23,201,851</b>	<b>1,433,085</b>	<b>-</b>	<b>24,634,936</b>	<b>30,865,263</b>
<b>General</b>									
Transportation equipment	369,320	11,281	9,990	370,611	320,892	19,774	9,990	330,676	39,935
Tractors & backhoes	71,418	-	25,793	45,625	69,518	1,900	25,793	45,625	-
General equipment	202,198	301,965	-	504,163	151,751	24,353	-	176,104	328,059
Office furniture and fixtures	131,716	-	-	131,716	122,911	2,087	-	124,998	6,718
Two-way radio equipment	10,604	-	-	10,604	7,423	2,121	-	9,544	1,060
Computer equipment	326,160	9,512	-	335,672	250,577	27,093	-	277,670	58,002
<b>Total general plant</b>	<b>1,111,416</b>	<b>322,758</b>	<b>35,783</b>	<b>1,398,391</b>	<b>923,072</b>	<b>77,328</b>	<b>35,783</b>	<b>964,617</b>	<b>433,774</b>
<b>Unclassified plant</b>									
Engineering fees	144,502	-	-	144,502	42,953	14,450	-	57,403	87,099
Construction in progress	1,624,959	454,705	-	2,079,664	-	-	-	-	2,079,664
<b>Total sewer plant</b>	<b>\$ 57,577,586</b>	<b>\$ 1,580,953</b>	<b>\$ 35,783</b>	<b>\$ 59,122,756</b>	<b>\$ 24,167,876</b>	<b>\$ 1,524,863</b>	<b>\$ 35,783</b>	<b>\$ 25,656,956</b>	<b>\$ 33,465,800</b>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SUMMARY OF SINKING FUND REQUIREMENTS  
 June 30, 2007

Bonds Due Fiscal Year	1993	2002	2005 A	2005 B	Total Debt Service
2008	418,034	930,555	1,505,049	163,563	3,017,201
2009	-	-	1,904,314	159,963	2,064,277
2010	-	-	1,905,818	166,213	2,072,031
2011	-	-	1,906,139	162,312	2,068,451
2012	-	-	1,904,605	163,337	2,067,942
2013	-	-	1,905,405	164,037	2,069,442
2014	-	-	1,903,645	164,316	2,067,961
2015	-	-	1,904,893	164,244	2,069,137
2016	-	-	1,902,600	163,809	2,066,409
2017	-	-	1,901,600	163,000	2,064,600
2018	-	-	1,903,500	-	1,903,500
2019	-	-	1,903,200	-	1,903,200
2020	-	-	1,905,600	-	1,905,600
2021	-	-	1,905,600	-	1,905,600
2022	-	-	1,903,200	-	1,903,200
2023	-	-	1,903,300	-	1,903,300
2024	-	-	1,900,800	-	1,900,800
2025	-	-	1,905,500	-	1,905,500
2026	-	-	1,902,300	-	1,902,300
	<u>\$ 418,034</u>	<u>\$ 930,555</u>	<u>\$ 35,777,068</u>	<u>\$ 1,634,794</u>	<u>\$ 38,760,451</u>

The sinking fund reserve requirement is the maximum total debt service on bonds due in future years. Therefore, the sinking fund reserve requirement as of June 30, 2007 is \$3,017,201. The HWEA is setting aside funds to meet this requirement.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES  
 For the Years Ended June 30, 2007 and 2006

	2007		2006	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Water Source of Supply</b>				
Labor	\$ 5,193	0.05%	\$ 5,036	0.06%
Supplies	394	0.00%	554	0.01%
Utilities	52,952	0.56%	41,924	0.46%
Grounds and maintenance	7,617	0.08%	2,577	0.03%
Total water source of supply	66,156	0.70%	50,091	0.55%
<b>Water Purification</b>				
Supervision	48,875	0.52%	49,327	0.55%
Labor	294,929	3.11%	269,103	2.98%
Chemicals	461,239	4.87%	501,397	5.55%
Maintenance to structures	4,144	0.04%	1,867	0.02%
Maintenance to equipment	24,003	0.25%	28,122	0.31%
Supplies	15,120	0.16%	10,584	0.12%
Maintenance to reservoirs and tanks	192	0.00%	3,499	0.04%
Utilities	298,401	3.15%	271,059	3.00%
Training and education	798	0.01%	743	0.01%
Laboratory work	57,883	0.61%	56,440	0.62%
Laboratory supplies and expense	20,571	0.22%	16,494	0.18%
Plant security	-	0.00%	27	0.00%
Grounds and maintenance	4,329	0.05%	1,744	0.02%
Transportation expense	6,149	0.06%	4,984	0.06%
Miscellaneous	576	0.01%	781	0.01%
Total water purification	1,237,209	13.06%	1,216,171	13.46%
<b>Water Distribution</b>				
Supervision	54,519	0.58%	50,601	0.56%
Labor	237,784	2.51%	221,397	2.45%
Supplies	106,808	1.13%	105,237	1.16%
Repairs to structures	-	0.00%	-	0.00%
Repairs to distribution mains	45,057	0.48%	52,117	0.58%
Repairs to services	12,935	0.14%	16,211	0.18%
Repair to meters	1,206	0.01%	2,385	0.03%
Removing and resetting meters	47,826	0.50%	45,419	0.50%
Repairs to fire hydrants	954	0.01%	2,435	0.03%
Transportation expense	30,181	0.32%	31,624	0.35%
Gas, oil, tires, etc-tractor/compressor	18,111	0.19%	20,980	0.23%
Grounds and maintenance	10,381	0.11%	10,969	0.12%
Training, education and licenses	1,382	0.01%	1,781	0.02%
Small tools	2,016	0.02%	296	0.00%
Miscellaneous	-	0.00%	62	0.00%
Total water distribution	569,160	6.01%	561,514	6.22%
Subtotal carried forward	\$ 1,872,525	19.77%	\$ 1,827,776	20.23%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES (continued)  
 For the Years Ended June 30, 2007 and 2006

	2007		2006	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	\$ 1,872,525	19.77%	\$ 1,827,776	20.23%
<b>Water Technical Services</b>				
Labor	84,794	0.90%	78,212	0.87%
Supplies	1,766	0.02%	1,866	0.02%
Training, education and licenses	494	0.01%	639	0.01%
Transportation expense	4,049	0.04%	5,061	0.06%
Miscellaneous	399	0.00%	415	0.00%
Total water technical services	91,502	0.97%	86,193	0.95%
<b>Water Administrative and General</b>				
Commissioners' fees	3,000	0.03%	3,000	0.03%
Office salaries	315,917	3.34%	315,818	3.50%
Meter reading and collecting salaries	49,208	0.52%	43,760	0.48%
Employee benefits	616,107	6.51%	472,262	5.23%
Office supplies	33,392	0.35%	37,290	0.41%
Postage	22,679	0.24%	23,143	0.26%
Telephone	16,522	0.17%	16,813	0.19%
Insurance and bonds	152,453	1.61%	132,063	1.46%
Professional services	30,928	0.33%	37,416	0.41%
Safety program	32,063	0.34%	31,073	0.34%
Office building maintenance	31,139	0.33%	30,745	0.34%
Bad debts, net	24,920	0.26%	28,579	0.32%
Training, education and licenses	990	0.01%	2,898	0.03%
Transportation expense	10,488	0.11%	8,821	0.10%
Miscellaneous	31,388	0.33%	31,989	0.35%
Total water administrative and general	1,371,194	14.48%	1,215,670	13.46%
Total water operating expense other than depreciation	\$ 3,335,221	35.21%	\$ 3,129,639	34.64%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES (continued)  
 For the Years Ended June 30, 2007 and 2006

	2007		2006	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Wastewater Treatment Plant</b>				
Supervision	\$ 51,332	0.54%	\$ 50,393	0.56%
Labor	258,594	2.73%	248,215	2.75%
Chemicals and materials	37,354	0.39%	34,366	0.38%
Supplies and tools	12,797	0.14%	13,189	0.15%
Lights, power, water, and fuel oil	433,210	4.57%	409,090	4.53%
Transportation expense	20,470	0.22%	19,890	0.22%
Repairs - machinery and equipment	29,138	0.31%	36,149	0.40%
Repairs - buildings	3,746	0.04%	2,446	0.03%
Maintenance of pump stations	135,648	1.43%	103,615	1.15%
Laboratory work	92,726	0.98%	95,999	1.06%
Laboratory supplies and expense	17,204	0.18%	12,537	0.14%
Permit - pretreatment compliance	40,590	0.43%	36,172	0.40%
Sludge disposal	102,125	1.08%	87,949	0.97%
Training, education and licenses	125	0.00%	420	0.00%
Miscellaneous	-	0.00%	109	0.00%
	1,235,059	13.04%	1,150,539	12.74%
<b>Wastewater Mains and Laterals</b>				
Supervision	35,693	0.38%	33,086	0.37%
Labor	70,176	0.74%	54,662	0.61%
Supplies and tools	40,184	0.42%	32,309	0.36%
Repairs - mains and laterals	11,894	0.13%	19,333	0.21%
Repairs - truck and sewerage equipment	175	0.00%	2,779	0.03%
Gas, oil, and tires	4,786	0.05%	4,816	0.05%
Developer rebates	8,766	0.09%	9,258	0.10%
	171,674	1.81%	156,243	1.73%
<b>Wastewater Technical Services</b>				
Labor	89,504	0.95%	85,234	0.94%
Supplies	1,766	0.02%	1,866	0.02%
Training, education and licenses	494	0.01%	639	0.01%
Transportation expense	4,063	0.04%	5,063	0.06%
Miscellaneous	432	0.00%	413	0.00%
	96,259	1.02%	93,215	1.03%
Subtotal carried forward	\$ 1,502,992	15.87%	\$ 1,399,997	15.50%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES (continued)  
 For the Years Ended June 30, 2007 and 2006

	2007		2006	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	<u>\$ 1,502,992</u>	<u>15.87%</u>	<u>\$ 1,399,997</u>	<u>15.50%</u>
<b>Sewerage Administrative and General</b>				
Commissioners' fees	3,000	0.03%	3,000	0.03%
Office salaries	312,997	3.30%	312,898	3.46%
Meter reading and collecting salaries	48,647	0.51%	43,687	0.48%
Labor - camera crew	6,767	0.07%	-	0.00%
Employee benefits	516,196	5.45%	396,842	4.39%
Office supplies	33,486	0.35%	37,008	0.41%
Postage	22,683	0.24%	23,143	0.26%
Telephone	16,008	0.17%	16,843	0.19%
Insurance and bonds	152,453	1.61%	131,251	1.45%
Professional services	29,934	0.32%	40,366	0.45%
Office building maintenance	31,140	0.33%	30,551	0.34%
Bad debts, net	23,988	0.25%	28,321	0.31%
Training, education and licenses	990	0.01%	2,899	0.03%
Safety program	31,993	0.34%	31,073	0.34%
Transportation expense	10,529	0.11%	8,822	0.10%
Miscellaneous	<u>31,436</u>	<u>0.33%</u>	<u>32,162</u>	<u>0.36%</u>
Total sewer administrative and general	<u>1,272,247</u>	<u>13.43%</u>	<u>1,138,866</u>	<u>12.61%</u>
Total sewerage operating expense other than depreciation	<u><u>\$2,775,239</u></u>	<u><u>29.30%</u></u>	<u><u>\$2,538,863</u></u>	<u><u>28.10%</u></u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
For the year ended June 30, 2007**

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Total Disbursements/ Expenditures</u>	<u>Adjustments</u>	<u>Federal Disbursements/ Expenditures</u>
<u>Loan</u>					
U.S. Environmental Protection Agency:					
DWSRF Pass-through from the State of Kentucky Infrastructure Authority*	66.468	LOAN-F06-02	\$ 2,397,955	\$ (891,669)	\$ 1,506,286
CWSRF Pass-through from the State of Kentucky Infrastructure Authority	66.458	LOAN-A03-05	301,965	(38,644)	263,321
CWSRF Pass-through from the State of Kentucky Infrastructure Authority	66.458	LOAN-A04-05	425,183	279,757	704,940
<i>Total Federal Expenditures for the period.</i>					\$ 2,474,547

\*Denotes major program

**NOTE A - BASIS OF PRESENTATION**

This schedule of expenditures of federal awards includes the federal grant activity of Hopkinsville Water Environment Authority, a component unit of the City of Hopkinsville, Kentucky. This schedule is presented on the cash basis of accounting, due to the nature of the federal programs reported upon. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.





**& CO. – HOPKINSVILLE, LLP**

CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

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FIRM ID # 61-1313802

LEONARD F ADCOCK, CPA  
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KERRY T FORT, CPA

**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 the accompanying financial statements of the business-type activities of the Hopkinsville Water Environment Authority (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 19, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the HWEA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HWEA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HWEA's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HWEA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the HWEA's financial statements that is more than inconsequential will not be prevented or detected by the HWEA's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the HWEA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, the commission members of the HWEA, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

York, Neel & Co. - Hopkinsville, LLP  
Hopkinsville, Kentucky  
November 19, 2007



**& CO. - HOPKINSVILLE, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS**

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FIRM ID # 61-1313802

LEONARD F. ADCOCK, CPA  
JOHN M. DeANGELIS, CPA  
KERRY T. FORT, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the Hopkinsville Water Environment Authority (HWEA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The HWEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the HWEA's management. Our responsibility is to express an opinion on the HWEA's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the HWEA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the HWEA's compliance with those requirements.

In our opinion, the HWEA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the Hopkinsville Water Environment Authority (HWEA) is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the HWEA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HWEA's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, management, the commission members of the HWEA, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yoc K. Neel & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky  
November 19, 2007

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2007

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Hopkinsville Water Environment Authority (HWEA).
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*..
3. No instances of noncompliance material to the financial statements of the Hopkinsville Water Environment Authority (HWEA) were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expressed an unqualified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program includes Environmental Protection Agency as Passed Through the Kentucky Infrastructure Authority Drinking Water State Revolving Fund.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Hopkinsville Water Environment Authority (HWEA) was determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

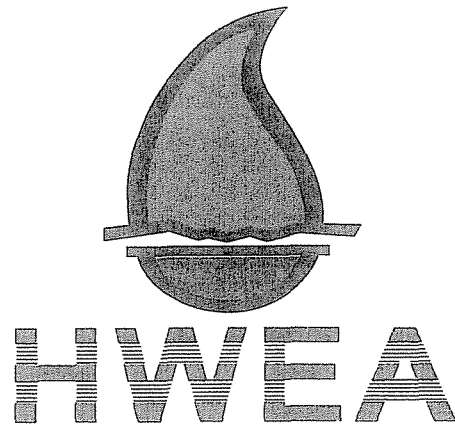
*U.S. ENVIRONMENTAL PROTECTION AGENCY*  
Pass-through from Kentucky Infrastructure Authority  
Drinking Water State Revolving Fund

None

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the year ended June 30, 2007

The Hopkinsville Water Environment Authority had no prior audit findings.

**TAB 3**



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
*Hopkinsville, Kentucky*

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2006 ANNUAL FINANCIAL REPORT



**HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
DIRECTORY OF OFFICIALS  
June 30, 2006

**COMMISSIONERS**

**Bob Carter, Chairman**

**Robert Babbage**

**Breck Cayce**

**Charles Turner**

**Richard Covington, Council Member**

**ATTORNEY**

**Andrew Self**

**GENERAL MANAGER**

**Len F. Hale**

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

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements –	
Exhibit A – Statement of Net Assets	8
Exhibit B – Statement of Revenues, Expenses and Changes in Net Assets	10
Exhibit C – Statement of Cash Flows	11
Notes to Financial Statements	13
Supporting Schedules–	
Schedules –	
1 - Combining Statement of Net Assets	23
2 - Combining Statement of Revenues, Expenses and Changes in Net Assets	26
3 - Summary of Property, Plant and Equipment	27
4 - Summary of Sinking Fund Requirements	29
5 - Schedule of Operating Expenses	30
Schedule of Expenditure of Federal Awards	34
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	37
Schedule of Findings and Questioned Costs	39
Summary Schedule of Prior Year Audit Findings	40



**& CO. - HOPKINSVILLE, LLP**

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FIRM ID # 61-1313802

LEONARD F. ADCOCK, CPA  
JOHN M. DeANGELIS, CPA  
KERRY T. FORT, CPA

## 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

We have audited the accompanying financial statements of the Hopkinsville Water Environment Authority, Water and Wastewater Departments (HWEA), a component unit of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the HWEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the HWEA, a component unit of the City of Hopkinsville, Kentucky, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Hopkinsville Water Environment Authority. The combining financial statements and other supplementary schedules presented on pages 23-33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Hopkinsville Water Environment Authority. The combining financial statements and other supplementary schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

York, Neel & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky

October 23, 2006

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Hopkinsville Water Environment Authority Water and Wastewater Department is presenting the following discussion and analysis in order to provide an overall review of financial activities for the fiscal years ending June 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, and notes to the basic financial statements to enhance their understanding of financial performance.

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**FINANCIAL HIGHLIGHTS**

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- The HWEA's total assets increased by \$1.07 million while total liabilities increased \$155,855 resulting in total net assets increasing approximately \$910,947 over the course of the year's operations.
- The HWEA's operating revenues increased 13.13% in 2006, while operating expenses in 2006 increased approximately 5.32% over operating expenses for 2005.
- Investment income increased by \$869,743 during the period, reflective of the investment of bond proceeds and slightly higher interest rates in 2006.
- Interest expense on outstanding debt increased \$917,267, which is reflective of the interest on the 2005 bonds.

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**REQUIRED FINANCIAL STATEMENTS**

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The financial statements of the Hopkinsville Water Environment Authority 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 Assets includes all of the HWEA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the HWEA's creditors (liabilities). It also provides the basis for evaluating the capital structure of the HWEA and assessing the liquidity and financial flexibility of the HWEA.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the HWEA's operations over the past year and can be used to determine whether the HWEA has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**REQUIRED FINANCIAL STATEMENTS (cont.)**

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

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

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The most common financial question posed to the Hopkinsville Water Environment Authority is "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the HWEA's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the HWEA's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the HWEA's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

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**NET ASSETS**

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

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

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$31,761	\$32,570	\$ (809)	(2.48)%
Capital Assets	<u>58,543</u>	<u>56,668</u>	<u>1,875</u>	<u>3.31%</u>
Total Assets	90,304	89,238	1,066	1.19%
Long-term Debt Outstanding	48,977	49,987	(1,010)	(2.02)%
Other Liabilities	<u>2,154</u>	<u>988</u>	<u>1,166</u>	<u>118.02%</u>
Total Liabilities	51,131	50,975	156	.31%
Invested in Capital Assets, Net of Related Debt	9,273	7,703	1,570	20.38%
-Restricted	27,775	28,558	(783)	(2.74)%
-Unrestricted	<u>2,125</u>	<u>2,001</u>	<u>124</u>	<u>6.20%</u>
Total Net Assets	<u>\$39,173</u>	<u>\$38,262</u>	<u>\$ 911</u>	<u>2.38%</u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

**NET ASSETS (cont.)**

As can be seen from the table above, net assets increased \$910,947 during 2006. The increase in net assets is primarily due to the increase in capital assets.

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

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating revenues	\$ 9,034	\$ 7,986	\$ 1,048	13.12%
Nonoperating revenues	<u>1,143</u>	<u>244</u>	<u>899</u>	<u>368.44%</u>
Total Revenues	10,177	8,230	1,947	23.66%
Depreciation expense	2,372	2,344	28	1.19%
Other operating expense	5,668	5,292	376	7.11%
Interest expense	<u>1,582</u>	<u>664</u>	<u>918</u>	<u>138.25%</u>
Total Expense	9,622	8,300	1,322	15.93%
Income/(Loss) Before Capital Contributions	555	(70)	625	
Capital Contributions	<u>356</u>	<u>286</u>	<u>70</u>	
Changes in Net Assets	<u>911</u>	<u>216</u>	<u>695</u>	
Beginning Net Assets	<u>38,262</u>	<u>38,046</u>	<u>216</u>	
Ending Net Assets	<u>\$ 39,173</u>	<u>\$ 38,262</u>	<u>\$ 911</u>	

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



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**BUDGETARY HIGHLIGHTS**

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

**Table A-3  
 Budget vs. Actual  
 FY 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Income	\$ 9,108	\$ 9,034	\$ (74)
Non-operating income	748	1,499	751
Operating expense & depreciation	(7,738)	(8,040)	(302)
Non-operating expense	<u>(1,564)</u>	<u>(1,582)</u>	<u>(18)</u>
Net Income	<u>\$ 554</u>	<u>\$ 911</u>	<u>\$ 357</u>

---

**CAPITAL ASSETS**

---

At the end of 2006, the HWEA had \$100.8 million invested in capital assets as shown in Table A-4. Construction in Process primarily represents the Lake Barkley Raw Water Intake Project and a seven-phase project to include sewer rehabilitation, pump station rehabilitation and sewer extensions. These construction projects are being financed, in part, by federally assisted low interest rate loans extended by the Kentucky Infrastructure Authority.

**Table A-4  
 Capital Assets**

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Water	\$ 43,223,653	\$ 41,089,114	\$ 2,134,539	5.19%
Sewerage	<u>57,577,585</u>	<u>55,465,678</u>	<u>2,111,907</u>	<u>3.81%</u>
Sub-total	100,801,238	96,554,792	4,246,446	4.40%
Less: Accumulated Depreciation	<u>(42,258,259)</u>	<u>(39,886,387)</u>	<u>(2,371,872)</u>	<u>5.95%</u>
Net Property & Equipment	<u>\$ 58,542,979</u>	<u>\$ 56,668,405</u>	<u>\$ 1,874,574</u>	<u>3.31%</u>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

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**DEBT ADMINISTRATION**

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The revenues of the water and sewer systems collateralize outstanding revenue bonds. After operation and maintenance expenses are paid, the ordinances specify that revenue bond funds be established and maintained. HWEA is in compliance with all bond ordinances. Debt obtained from the Kentucky Infrastructure Authority is for the purposes of upgrading and expanding the water and sewer systems. More detailed information about the HWEA's long-term liabilities is presented in Note 6 to the financial statements.

As noted in the discussion of Capital Assets, the KIA is currently making additional low interest rate loans available for the Lake Barkley Raw Water Intake Project and a seven-phase project to include sewer rehabilitation, pump station rehabilitation and sewer extensions. In addition, a significant portion of the 2005 bond issue has been set aside to complete the Intake Project and subsequent Raw Water Pipeline to the water treatment plant.

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**FINAL COMMENTS**

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

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS  
 June 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current assets		
Cash and cash equivalents	\$ 1,506,480	\$ 1,628,457
Receivables	588,171	683,583
Inventory	249,311	190,210
Prepaid expenses	<u>304,906</u>	<u>-</u>
Total current assets	2,648,868	2,502,250
Restricted assets		
Cash and cash equivalents	27,775,073	28,558,239
Deferred charges	944,011	1,090,711
Note receivable	393,517	418,041
Property, plant and equipment		
Property, plant and equipment	94,697,665	89,872,463
Unclassified plant – construction in progress, engineering fees, and other costs	6,103,573	6,682,329
Accumulated depreciation	<u>(42,258,259)</u>	<u>(39,886,387)</u>
Total assets	<u>\$ 90,304,448</u>	<u>\$ 89,237,646</u>

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS (continued)  
 June 30, 2006 and 2005

LIABILITIES AND EQUITY

	<u>2006</u>	<u>2005</u>
Current liabilities		
Current portion of long-term debt	\$ 875,449	\$ 888,444
Customer deposits	111,001	108,821
Accrued interest	18,081	19,321
Accounts payable	564,969	368,419
Accrued salaries and compensated absences	131,174	201,326
Note payable-Christian Co. Water District	<u>-</u>	<u>80,226</u>
Total current liabilities	1,700,674	1,666,557
Payable from restricted assets		
Accounts payable, restricted assets	781,240	44,931
Current portion of long-term debt	1,996,089	1,331,804
Accrued interest on bonded indebtedness	289,724	77,044
Construction retainage payable	258,281	88,354
Long-term debt		
Revenue bonds payable (net of current portion)	27,793,116	29,738,215
Capital lease obligation	-	-
KIA – loans payable (net of current portion)	18,087,174	17,751,649
City of Crofton note payable	109,756	160,746
City of Hopkinsville-loan payable	<u>114,971</u>	<u>115,870</u>
Total liabilities	<u>51,131,025</u>	<u>50,975,170</u>
Net assets		
Invested in capital assets, net of related debt	9,272,865	7,703,484
Net assets, restricted	27,775,073	28,558,239
Net assets, unrestricted	<u>2,125,485</u>	<u>2,000,753</u>
Total net assets	<u>39,173,423</u>	<u>38,262,476</u>
Total liabilities and net assets	<u>\$ 90,304,448</u>	<u>\$ 89,237,646</u>

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Charges for services (net of allowances of \$47,296 and \$45,324 for 2006 and 2005, respectively)	\$ 8,860,991	\$ 7,940,288
Other operating revenue	<u>173,338</u>	<u>45,629</u>
Total operating revenues	<u>9,034,329</u>	<u>7,985,917</u>
Operating expenses		
Water source of supply	50,091	14,724
Water purification	1,216,171	1,062,263
Water distribution	561,512	477,595
Sewerage plant	1,150,538	1,102,750
Sewerage mains and laterals	156,243	172,474
Administrative and general	2,354,539	2,293,871
Technical services	179,408	167,259
Depreciation	<u>2,371,873</u>	<u>2,343,660</u>
Total operating expenses	<u>8,040,375</u>	<u>7,634,596</u>
Income from operations	<u>993,954</u>	<u>351,321</u>
Non-operating revenues (expenses)		
Interest revenues	1,142,928	273,185
Gain on sale of fixed assets	-	(29,624)
Interest expense	<u>(1,581,602)</u>	<u>(664,335)</u>
Total non-operating revenues (expenses)	<u>(438,674)</u>	<u>(420,774)</u>
Income (loss) before contributions	555,280	(69,453)
Capital contributions (capital assets provided by developers)	<u>355,667</u>	<u>286,281</u>
Change in Net Assets	910,947	216,828
Net Assets – beginning of the year	<u>38,262,476</u>	<u>38,045,648</u>
Net Assets – end of the year	<u>\$39,173,423</u>	<u>\$38,262,476</u>

See accompanying notes to financial statements.

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF CASH FLOWS  
 For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>		
Received from customers	\$ 8,958,584	\$ 7,805,728
Paid to suppliers for goods and services	(2,193,192)	(2,719,170)
Paid to employees for services-including benefits	(2,806,683)	(2,637,107)
Other operating revenue	<u>173,338</u>	<u>45,629</u>
Net cash flows from operating activities	<u>4,132,047</u>	<u>2,495,080</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of fixed assets	(4,246,448)	(3,130,415)
Proceeds from disposition of fixed assets	-	4,692
Capital contribution	355,667	286,281
Proceeds of long-term debt	1,251,474	28,373,736
Principal paid on long-term debt	(2,195,173)	(3,689,382)
Interest paid on long-term debt	<u>(1,370,162)</u>	<u>(555,623)</u>
Net cash provided (used) by capital and related financing activities	<u>\$ (6,204,642)</u>	<u>\$ 21,289,289</u>
<b>Cash flows from investing activities</b>		
Collection of note receivable	24,524	24,091
Interest earned on investments	<u>1,142,928</u>	<u>273,185</u>
Net cash provided (used) by investing activities	<u>1,167,452</u>	<u>297,276</u>
Net increase (decrease) in cash and cash equivalents	(905,143)	24,081,645
Cash and cash equivalents at beginning of year (includes restricted assets of \$28,558,239 and \$5,167,762 for 2006 and 2005, respectively)	<u>30,186,696</u>	<u>6,105,051</u>
Cash and cash equivalents at end of year (includes restricted assets of \$27,775,073 and \$28,558,239 for 2006 and 2005, respectively)	<u>\$ 29,281,553</u>	<u>\$ 30,186,696</u>

Continued

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENT  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 STATEMENT OF CASH FLOWS (continued)  
 For the years ended June 30, 2006 and 2005

	2006	2005
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>		
Cash flows from operating activities		
Income from operations	\$ 993,954	\$ 351,321
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	2,371,873	2,343,660
Change in assets and liabilities		
Change in accounts receivable	95,412	(136,688)
Change in other receivable	-	-
Change in inventory	(59,101)	38,299
Change in prepaid expenses	(304,906)	258,092
Change in accounts payable	932,860	(91,329)
Change in customer deposits	2,180	2,128
Change in accrued salaries and compensated absences	(70,152)	23,081
Change in construction retainage payable	<u>169,927</u>	<u>(293,484)</u>
Net cash provided by operating activities	<u>\$4,132,047</u>	<u>\$2,495,080</u>
 <u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the period for:		
Interest expense (net of \$0 and \$0 capitalized interest for 2006 and 2005, respectively)	\$1,370,162	\$ 553,623

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

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

b. Basis of accounting

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

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

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



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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

b. Basis of accounting, continued

- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

c. Separate accounting

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

d. Deposits and investments

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

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

As security for deposits of the HWEA, any bank doing such business is generally required to pledge securities in an amount to exceed funds on deposit by the HWEA. In addition, the HWEA is insured under FDIC up to \$100,000.00 at each bank.

For purposes of the statement of cash flows, the HWEA considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

e. Inventories

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

f. Prepaid expenses

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

g. Restricted assets

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

h. Fixed assets

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives. Property, plant and equipment donated to the 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. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

i. Compensated absences

Accumulated unpaid vacation pay and other employee benefits amounts are accrued when incurred if significant at year-end. At June 30, 2006 and 2005, these liabilities included vacation pay of \$108,534 and \$102,518, respectively, to be taken as terminal pay upon retirement.

j. Long-term debt

Bond discounts and issuance costs are deferred and reported as deferred charges on the statement of net assets. These costs are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. HWEA issued new bonds during 2005 and 2002, the proceeds of which were used to refund older bonds; and also in 2005, to provide funds for the Lake Barkley Raw Water Project. GASBS No. 23 requires that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

k. Capital Contributions

Contributed capital is recorded for receipt of capital grants or contributions from developers, customers or other sources. Unreserved net assets represent the net assets available for future operations or distribution.

l. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets.

m. Estimates

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

2. RECEIVABLES

Net receivables included the following:

	2006	2005
Customer accounts receivable	\$588,171	\$683,583

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.

Note receivable from the Christian County Board of Education for installation of sewer lines, due in annual installments of \$33,118 including interest at 1.8% and a .2% administrative fee, due June 30, 2019. The balance receivable was \$393,517 and \$418,041 at June 30, 2006 and 2005, respectively.

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

2. RECEIVABLES, continued

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

	2006	2005
Accounts charged off in current period	\$ 65,315	49,709
Recovery of accounts previously charged off	<u>(14,921)</u>	<u>(17,284)</u>
Net bad debts	<u>\$ 50,394</u>	<u>\$ 32,425</u>

3. INVENTORY

Inventory as of June 30, 2006 and 2005, consisted of materials and supplies with a cost of \$249,311 and \$190,210, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment as of June 30:

	2006	2005	Life (Years)
Water System	\$ 37,776,492	\$ 37,395,848	10 - 50
Sewer System	54,696,708	50,300,983	20 - 50
General Plant	<u>2,224,465</u>	<u>2,175,632</u>	4 - 10
	94,697,665	89,872,463	
Unclassified Plant	<u>6,103,573</u>	<u>6,682,329</u>	
Total property, plant, and equipment	<u>\$100,801,238</u>	<u>\$96,554,792</u>	

Depreciation expense (including amortization of capitalized assets) for the years ended June 30, 2006 and June 30, 2005 was \$2,371,873 and \$2,343,660, respectively.

5. DEFERRED CHARGES

The selling costs and discounts associated with the issuance of the revenue bonds payable are being amortized on the straight-line method over the term of the bonds. Amortization expense charged to operations during 2006 and 2005 was \$146,700 and \$101,704, respectively.

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

6. LONG-TERM DEBT

Long-term debt at June 30 is as follows:

Revenue Bonds:	<u>Rate</u>	<u>2006</u>	<u>2005</u>
Series 1993 Maturing 2007	3.54% to 4.86%	\$ 758,215	\$ 1,071,455
Series 2002 Maturing 2007	1.50% to 3.40%	1,845,000	2,770,000
Series 2005 A Maturing 2026	3.375% to 4.00%	25,635,000	25,635,000
Series 2005 B Maturing 2017	3.00% to 3.625%	<u>1,500,000</u>	<u>1,545,000</u>
Total Bonded Indebtedness		<u>29,738,215</u>	<u>31,021,455</u>
 KIA Loans:			
KIA Fund A Wastewater-Maturing 2015	1.2%	4,909,146	5,394,180
KIA Fund B Water Plant-Maturing 2026	1.9%	3,636,796	3,785,006
KIA Fund A Phase II-Maturing 2018	1.8%	2,050,239	2,202,017
KIA Fund A Wastewater-Maturing 2017	1.2%	141,474	153,243
KIA Fund A -Maturing 2019	0.4%	443,311	475,208
KIA Fund A Phase III-Maturing 2020	3.8%	663,888	697,669
KIA Fund A Phase IV (Maturity not established-loan not closed)	1%	4,267,637	4,239,892
KIA Fund F, Drinking Water (Maturity not established-loan not closed)	1%	1,513,593	1,234,648
KIA Fund A Phase V (Maturity not established-loan not closed)	1%	<u>1,336,540</u>	<u>432,256</u>
Total KIA Loans		<u>18,962,624</u>	<u>18,614,119</u>
City of Hopkinsville-note payable		114,971	115,875
City of Crofton-note payable		160,745	209,307
Capital Lease Obligation:			
IBM Credit Corporation		<u>-</u>	<u>25,972</u>
Total debt		48,976,555	49,986,728
Maturities due within one year		<u>(2,871,538)</u>	<u>(2,220,248)</u>
Long-term debt		<u>\$46,105,017</u>	<u>\$47,766,480</u>

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

6. LONG-TERM DEBT, continued

The revenue of the water and sewer system and the various special funds established by the bond ordinances collateralizes the Revenue 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. The HWEA is in compliance with all significant financial requirements as of June 30, 2006 and 2005.

The long-term debt obtained from the KIA is for the expansion and upgrade of the Wastewater Treatment System Fund A, a new Water Treatment Facility Fund B, and infrastructure to comply with the Safe Drinking Water Act Fund F. The loans are secured by the revenues of the HWEA but are subordinated to the existing revenue bonds.

On September 20, 1995, the HWEA secured a non-interest loan from the City. The loan is to be repaid quarterly in the amount of two (2) cents for each one thousand (1,000) gallons of water sold by it to any customer in Commerce Park.

During the year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Principal Outstanding <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>June 30, 2006</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 31,021,455	\$ -	\$1,283,240	\$ 29,738,215	\$ 1,945,098
Notes Payable	18,939,301	1,210,974	911,935	19,238,340	926,440
Capital Lease Obligation	<u>25,972</u>	<u>-</u>	<u>25,972</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 49,986,728</u>	<u>\$ 1,210,974</u>	<u>\$2,221,147</u>	<u>\$ 48,976,555</u>	<u>\$ 2,871,538</u>

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

	<u>2006</u>	<u>2005</u>
Bond and interest redemption fund	\$ 1,195,894	\$ 1,068,147
Depreciation fund	1,306,063	1,882,826
KIA maintenance and replacement reserve fund	771,422	641,046
Construction fund	24,480,368	24,945,946
Unemployment fund	<u>21,326</u>	<u>20,274</u>
Total restricted funds	<u>\$27,775,073</u>	<u>\$28,558,239</u>

Total interest for 2006 and 2005 was \$1,581,602 and \$664,335, respectively, of which all was expensed.

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

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

The annual requirements to amortize long-term debt as of June 30, 2006, including interest payments are as follows:

2007	\$ 4,164,114
2008	4,141,985
2009	3,189,064
2010	3,137,794
2011	3,134,211
2012-2016	15,394,967
2017-2021	11,562,705
2022-2026	10,612,217
Undetermined (loans not closed)	7,234,991
Less interest	<u>(13,595,493)</u>
	<u>\$48,976,555</u>

**Defeased Bonds Outstanding**

In prior years, the HWEA issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The HWEA has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the HWEA's financial statement. 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. On June 30, 2006 and 2005, the amount of bonds outstanding considered defeased is undeterminable.

**7. DEFINED BENEFIT PENSION PLAN**

The HWEA participates in the statewide local government retirement system, which covers substantially all of the HWEA's employees by their election.

**Plan Description.** The HWEA contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

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

**7. DEFINED BENEFIT PENSION PLAN, continued**

**Funding policy.** Plan members are required to contribute 5% of their annual creditable compensation and the HWEA is required to contribute at an actuarially determined rate. The current rate is 10.98% of annual covered payroll. The contribution requirements of plan members and the HWEA are established and may be amended by the KRS Board of Trustees. The HWEA's contribution to CERS for the three years ended June 30, 2006, 2005, and 2004 was \$264,839, \$184,789, and \$161,923, respectively, is equal to the required contribution for these years.

**8. BUDGET**

Bond ordinances require that the HWEA's funds be budgeted. Actual revenues and expenditures as compared to budgeted amounts for year ended June 30, 2006, are as follows:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 9,108,150	\$ 9,034,329	\$ (73,821)
Operating Expenses	(5,400,760)	(5,668,502)	(267,742)
Depreciation Expense	<u>(2,337,000)</u>	<u>(2,371,873)</u>	<u>(34,873)</u>
 Operating Income	 1,370,390	 993,954	 (376,436)
 Non-Operating Revenues	 747,690	 1,498,595	 750,905
Non-Operating Expenses	<u>(1,564,400)</u>	<u>(1,581,602)</u>	<u>(17,202)</u>
 Net Income	 <u>\$ 553,680</u>	 <u>\$ 910,947</u>	 <u>\$ 357,267</u>

**9. DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the HWEA's deposits may not be returned or the HWEA will not be able to recover collateral securities in the possession of an outside party. State law requires all of the HWEA's funds to be fully insured or collateralized. At year-end, the carrying amount of the HWEA's deposits was \$25,949,539 and the bank balance was \$25,958,390. Of the bank balance, \$200,000 was covered by federal depository insurance with the balance covered by collateral held by the pledging bank. Therefore, as of June 30, 2006, none of the HWEA's deposited funds were exposed to custodial credit risk.

**10. CONTINGENCIES**

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.



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

**11. RISK MANAGEMENT**

The 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. The 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.

The 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. Premiums accrued for health insurance are based on the year-to-date claims experience of the HWEA.

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 COMBINING STATEMENT OF NET ASSETS  
 June 30, 2006**

**ASSETS**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
<b>Current assets</b>							
<b>Cash</b>							
Petty cash and change fund	\$ 1,200	\$ 1,200	\$ -	\$ -	\$ -	\$ -	\$ 2,400
Health claims fund	16,689	16,689	-	-	-	-	33,378
Employee reimbursement fund	3,000	-	-	-	-	-	3,000
Revenue fund	-	34,908	-	-	-	-	34,908
Operation and maintenance fund	<u>384,158</u>	<u>384,158</u>	<u>156,110</u>	<u>156,110</u>	<u>176,129</u>	<u>176,129</u>	<u>1,432,794</u>
Total cash	405,047	436,955	156,110	156,110	176,129	176,129	1,506,480
Receivables	339,656	209,128	7,568	6,569	15,182	10,068	588,171
Inventory	249,311	-	-	-	-	-	249,311
Prepaid expense	<u>152,453</u>	<u>152,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>304,906</u>
Total current assets	<u>1,146,467</u>	<u>798,536</u>	<u>163,678</u>	<u>162,679</u>	<u>191,311</u>	<u>186,197</u>	<u>2,648,868</u>
<b>Restricted assets</b>							
<b>Bond and interest redemption fund</b>							
Investments	1,073,167	5,817	-	-	-	-	1,078,984
Accrued interest	<u>116,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,910</u>
Subtotal	<u>1,190,077</u>	<u>5,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,195,894</u>
<b>Depreciation fund</b>							
Investments	800,000	500,000	-	-	-	-	1,300,000
Accrued interest	<u>5,921</u>	<u>142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,063</u>
Subtotal	<u>805,921</u>	<u>500,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,306,063</u>
<b>Equipment maintenance and replacement reserve</b>							
Investments	-	765,032	-	-	-	-	765,032
Accrued interest	<u>-</u>	<u>6,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,390</u>
Subtotal	<u>\$ -</u>	<u>\$ 771,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 771,422</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF NET ASSETS (continued)**

SCHEDULE 1

June 30, 2006

**ASSETS (continued)**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
Restricted assets (continued)							
Construction fund							
Checking accounts	24,480,368	-	\$ -	\$ -	\$ -	\$ -	\$ 24,480,368
Retainage fund	-	-	-	-	-	-	-
Subtotal	<u>24,480,368</u>	-	-	-	-	-	<u>24,480,368</u>
Unemployment fund							
Investments	10,644	10,644	-	-	-	-	21,288
Accrued interest	<u>19</u>	<u>19</u>	-	-	-	-	<u>38</u>
Subtotal	<u>10,663</u>	<u>10,663</u>	-	-	-	-	<u>21,326</u>
Total restricted assets	<u>26,487,029</u>	<u>1,288,044</u>	-	-	-	-	<u>27,775,073</u>
Property, plant and equipment							
Property and plant	37,176,711	53,284,765	136,753	200,506	463,028	1,211,438	92,473,201
General plant	1,113,049	1,111,415	-	-	-	-	2,224,464
Unclassified plant	<u>4,334,112</u>	<u>1,769,461</u>	-	-	-	-	<u>6,103,573</u>
Less accumulated depreciation	<u>42,623,872</u>	<u>56,165,641</u>	<u>136,753</u>	<u>200,506</u>	<u>463,028</u>	<u>1,211,438</u>	<u>100,801,238</u>
Net property, plant & equipment	<u>17,956,487</u>	<u>23,570,803</u>	<u>46,036</u>	<u>98,997</u>	<u>87,861</u>	<u>498,075</u>	<u>42,258,259</u>
Net property, plant & equipment	<u>24,667,385</u>	<u>32,594,838</u>	<u>90,717</u>	<u>101,509</u>	<u>375,167</u>	<u>713,363</u>	<u>58,542,979</u>
Receivable - CCBE	-	393,517	-	-	-	-	393,517
Receivable- Crofton division	<u>305,000</u>	-	-	-	-	-	<u>305,000</u>
	<u>305,000</u>	<u>393,517</u>	-	-	-	-	<u>698,517</u>
Deferred charges							
Fiscal agency fees - revenue bonds	350,398	-	-	-	-	-	350,398
Unamortized discount revenue bonds	<u>509,188</u>	<u>84,425</u>	-	-	-	-	<u>593,613</u>
Total deferred charges	<u>859,586</u>	<u>84,425</u>	-	-	-	-	<u>944,011</u>
Total assets	<u>\$ 53,465,467</u>	<u>\$ 35,159,360</u>	<u>\$254,395</u>	<u>\$264,188</u>	<u>\$566,478</u>	<u>\$ 899,560</u>	<u>\$ 90,609,448</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF NET ASSETS (continued)  
June 30, 2006**

**SCHEDULE 1**

**LIABILITIES AND EQUITY**

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
Current liabilities							
Current portion of long-term debt	\$ 151,041	\$ 680,471	\$ -	\$ 11,913	\$ 16,012	\$ 16,012	\$ 875,449
Customer deposits	79,474	31,527	-	-	-	-	111,001
Accrued interest on KIA loans	6,364	11,356	139	-	111	111	18,081
Accounts payable	461,784	103,185	-	-	-	-	564,969
Accrued salaries and compensated absences	61,244	69,930	-	-	-	-	131,174
Total current liabilities	759,907	896,469	139	11,913	16,123	16,123	1,700,674
Payable from restricted assets							
Accounts payable	410,894	370,346	-	-	-	-	781,240
Current portion of long term-debt	1,294,099	651,000	-	-	25,495	25,495	1,996,089
Accrued interest on indebtedness	272,554	15,160	-	-	1,005	1,005	289,724
Construction retainage payable	86,413	171,868	-	-	-	-	258,281
Long-term debt							
Revenue bonds payable (net of current maturities)	27,152,616	640,500	-	-	-	-	27,793,116
KIA loan payable (net of current maturities)	4,999,348	12,546,979	-	129,560	205,644	205,644	18,087,174
Hopkinsville division-note payable	-	-	-	-	305,000	-	305,000
City of Crofton-note payable (net of current maturities)	-	-	-	-	54,878	54,878	109,756
City of Hopkinsville-note payable	114,971	-	-	-	-	-	114,971
Total liabilities	35,090,802	15,292,322	139	141,473	608,144	303,144	51,436,025
Net assets							
Invested in capital assets, net of related debt	(8,961,329)	17,591,583	90,578	(39,964)	126,900	465,096	9,272,865
Net assets, restricted	26,487,029	1,288,044	-	-	-	-	27,775,073
Net assets, unrestricted	848,965	987,411	163,678	162,679	(168,567)	131,319	2,125,485
Total net assets	18,374,665	19,867,038	254,256	122,715	(41,667)	596,415	39,173,423
Total liabilities and net assets	\$ 53,465,467	\$ 35,159,360	\$254,395	\$264,188	\$566,478	\$ 899,560	\$ 90,609,448

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
For the Year ended June 30, 2006**

SCHEDULE 2

	Hopkinsville		Pembroke		Crofton		Totals
	Water	Sewer	Water	Sewer	Water	Sewer	
Operating revenues	\$ 4,388,077	\$ 4,197,223	\$ 85,748	\$ 82,202	\$ 167,638	\$ 113,441	\$ 9,034,329
Operating expenses							
Water source of supply	50,091	-	-	-	-	-	50,091
Water purification	1,213,810	-	417	-	1,944	-	1,216,171
Water distribution	467,819	-	27,378	-	66,315	-	561,512
Sewerage plant	-	1,128,295	-	9,795	-	12,448	1,150,538
Sewerage mains and laterals	-	122,365	-	27,748	-	6,130	156,243
Administrative and general	1,202,447	1,127,527	4,543	3,662	8,682	7,678	2,354,539
Technical services	86,193	93,215	-	-	-	-	179,408
Depreciation	891,638	1,359,317	4,899	15,106	16,322	84,591	2,371,873
Total operating expenses	<u>3,911,998</u>	<u>3,830,719</u>	<u>37,237</u>	<u>56,311</u>	<u>93,263</u>	<u>110,847</u>	<u>8,040,375</u>
Income from operations	<u>476,079</u>	<u>366,504</u>	<u>48,511</u>	<u>25,891</u>	<u>74,375</u>	<u>2,594</u>	<u>993,954</u>
Non-operating revenues (expenses)							
Interest revenue	1,062,127	80,801	-	-	-	-	1,142,928
Gain (loss) on sale of fixed assets	-	-	-	-	-	-	-
Interest on bonded indebtedness	<u>(1,254,830)</u>	<u>(312,082)</u>	<u>-</u>	<u>(2,050)</u>	<u>(6,320)</u>	<u>(6,320)</u>	<u>(1,581,602)</u>
Total non-operating revenues (expenses)	<u>(192,703)</u>	<u>(231,281)</u>	<u>-</u>	<u>(2,050)</u>	<u>(6,320)</u>	<u>(6,320)</u>	<u>(438,674)</u>
Income (loss) before contributions and operating transfers	283,376	135,223	48,511	23,841	68,055	(3,726)	555,280
Capital contributions							
Capital assets provided by developers	167,960	187,707	-	-	-	-	355,667
Transfer (to) from other funds							
Operating transfers in (out)	<u>(126,191)</u>	<u>87,979</u>	<u>(24,505)</u>	<u>(20,316)</u>	<u>64,685</u>	<u>18,348</u>	<u>-</u>
Net income	325,145	410,909	24,006	3,525	132,740	14,622	910,947
Net assets, beginning of year	<u>18,049,520</u>	<u>19,456,129</u>	<u>230,250</u>	<u>119,190</u>	<u>(174,406)</u>	<u>581,793</u>	<u>38,262,476</u>
Net assets, end of year	<u>\$ 18,374,665</u>	<u>\$ 19,867,038</u>	<u>\$254,256</u>	<u>\$122,715</u>	<u>\$ (41,666)</u>	<u>\$ 596,415</u>	<u>\$ 39,173,423</u>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SUMMARY OF PROPERTY, PLANT AND EQUIPMENT  
 June 30, 2006**

**SCHEDULE 3**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2006	
	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Balance June 30, 2005	Additions	Retirements		Balance June 30, 2006
<i>Water</i>									
Land	\$ 525,248	\$ -	-	\$ 525,248	\$ -	\$ -	\$ -	\$ -	\$ 525,248
Structures	2,744,993	1,445	-	2,746,438	1,075,089	58,114	-	1,133,203	1,613,235
Elevated tanks	2,445,748	5,650	-	2,451,398	1,331,157	49,495	-	1,380,652	1,070,746
Transmission mains	196,595	-	-	196,595	181,457	2,824	-	184,281	12,314
Distribution mains	13,004,036	274,518	-	13,278,554	5,334,056	243,715	-	5,577,771	7,700,733
Services	2,125,290	42,283	-	2,167,573	980,912	43,787	-	1,024,699	1,142,874
Meters and installation	2,150,004	40,552	-	2,190,556	1,824,702	62,394	-	1,887,096	303,460
Hydrants	749,624	13,680	-	763,304	340,740	17,400	-	358,140	405,164
Purification structures	7,494,394	2,516	-	7,496,910	2,033,225	148,835	-	2,182,060	5,314,850
Purification equipment	4,555,953	-	-	4,555,953	2,581,387	171,272	-	2,752,659	1,803,294
Cast iron pipe lines	44,436	-	-	44,436	37,873	772	-	38,645	5,791
Electric pumping equipment	402,888	-	-	402,888	223,415	13,363	-	236,778	166,110
Auxiliary power units	128,790	-	-	128,790	128,790	-	-	128,790	-
Quarry - raw water supply	784,872	-	-	784,872	288,847	30,839	-	319,686	465,186
Interest during construction	42,977	-	-	42,977	26,335	759	-	27,094	15,883
<b>Total water plant</b>	<b>37,395,848</b>	<b>380,644</b>	<b>-</b>	<b>37,776,492</b>	<b>16,387,985</b>	<b>843,569</b>	<b>-</b>	<b>17,231,554</b>	<b>20,544,938</b>
<i>General</i>									
Transportation equipment	265,805	-	-	265,805	195,073	22,889	-	217,962	47,843
Tractors & backhoes	71,417	-	-	71,417	65,718	3,800	-	69,518	1,899
General equipment	276,942	10,000	-	286,942	175,684	9,951	-	185,635	101,307
Office furniture and fixtures	134,408	1,741	-	136,149	124,337	3,152	-	127,489	8,660
Two-way radio equipment	10,604	-	-	10,604	4,948	2,121	-	7,069	3,535
Computer equipment	316,044	26,088	-	342,132	223,780	27,376	-	251,156	90,976
<b>Total general plant</b>	<b>1,075,220</b>	<b>37,829</b>	<b>-</b>	<b>1,113,049</b>	<b>789,540</b>	<b>69,289</b>	<b>-</b>	<b>858,829</b>	<b>254,220</b>
<b>Unclassified plant</b>									
Construction in progress	2,618,047	1,716,065	-	4,334,112	-	-	-	-	4,334,112
<b>Total water plant</b>	<b>\$ 41,089,115</b>	<b>\$ 2,134,538</b>	<b>\$ -</b>	<b>\$ 43,223,653</b>	<b>\$ 17,177,525</b>	<b>\$ 912,858</b>	<b>\$ -</b>	<b>\$ 18,090,383</b>	<b>\$ 25,133,270</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY OF PROPERTY, PLANT AND EQUIPMENT  
June 30, 2006**

**SCHEDULE 3**

Descriptions	ASSETS			ACCUMULATED DEPRECIATION				Depreciated values June 30, 2006	
	Balance	Additions	Retirements	Balance	Balance	Additions	Retirements		Balance
	June 30, 2005			June 30, 2006					June 30, 2005
<b>SEWERAGE</b>									
Land	\$ 326,412	\$ -	\$ -	\$ 326,412	\$ -	\$ -	\$ -	\$ -	\$ 326,412
Buildings	1,251,158	1,445	-	1,252,603	544,993	25,068	-	570,061	682,542
Wastewater treatment plants									
Northside	8,784,166	9,584	-	8,793,750	4,746,093	220,083	-	4,966,176	3,827,574
Hammond-Wood	11,536,725	42,816	-	11,579,541	4,980,709	353,305	-	5,334,014	6,245,527
Machinery and equipment	2,614,220	-	-	2,614,220	1,201,859	118,295	-	1,320,154	1,294,066
Pumping stations	2,318,444	37,338	-	2,355,782	1,026,921	108,242	-	1,135,163	1,220,619
Mains and laterals	23,296,715	4,304,546	-	27,601,261	9,285,818	548,625	-	9,834,443	17,766,818
Interest during construction	173,140	-	-	173,140	37,511	4,329	-	41,840	131,300
<b>Total sewerage plant</b>	<b>50,300,980</b>	<b>4,395,729</b>	<b>-</b>	<b>54,696,709</b>	<b>21,823,904</b>	<b>1,377,947</b>	<b>-</b>	<b>23,201,851</b>	<b>31,494,858</b>
<b>General</b>									
Transportation equipment	369,320	-	-	369,320	297,171	23,721	-	320,892	48,428
Tractors & backhoes	71,418	-	-	71,418	65,718	3,800	-	69,518	1,900
General equipment	202,198	-	-	202,198	144,666	7,085	-	151,751	50,447
Office furniture and fixtures	129,975	1,741	-	131,716	120,308	2,603	-	122,911	8,805
Two-way radio equipment	10,604	-	-	10,604	5,302	2,121	-	7,423	3,181
Computer equipment	316,899	9,261	-	326,160	223,290	27,287	-	250,577	75,583
<b>Total general plant</b>	<b>1,100,414</b>	<b>11,002</b>	<b>-</b>	<b>1,111,416</b>	<b>856,455</b>	<b>66,617</b>	<b>-</b>	<b>923,072</b>	<b>188,344</b>
<b>Unclassified plant</b>									
Engineering fees	144,502	-	-	144,502	28,503	14,450	-	42,953	101,549
Construction in progress	3,919,780	1,707,575	4,002,396	1,624,959	-	-	-	-	1,624,959
<b>Total sewer plant</b>	<b>\$ 55,465,676</b>	<b>\$ 6,114,306</b>	<b>\$ 4,002,396</b>	<b>\$ 57,577,586</b>	<b>\$ 22,708,862</b>	<b>\$ 1,459,014</b>	<b>\$ -</b>	<b>\$ 24,167,876</b>	<b>\$ 33,409,710</b>

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY OF SINKING FUND REQUIREMENTS  
June 30, 2006**

Bonds Due Fiscal Year	1993	2002	2005 A	2005 B	Total Debt Service
2007	638,099	975,525	1,523,611	162,088	3,299,323
2008	418,032	930,555	1,505,049	163,563	3,017,199
2009	-	-	1,904,314	159,963	2,064,277
2010	-	-	1,905,818	166,213	2,072,031
2011	-	-	1,906,139	162,312	2,068,451
2012	-	-	1,904,605	163,337	2,067,942
2013	-	-	1,905,405	164,037	2,069,442
2014	-	-	1,903,645	164,316	2,067,961
2015	-	-	1,904,893	164,244	2,069,137
2016	-	-	1,902,600	163,809	2,066,409
2017	-	-	1,901,600	163,000	2,064,600
2018	-	-	1,903,500	-	1,903,500
2019	-	-	1,903,200	-	1,903,200
2020	-	-	1,905,600	-	1,905,600
2021	-	-	1,905,600	-	1,905,600
2022	-	-	1,903,200	-	1,903,200
2023	-	-	1,903,300	-	1,903,300
2024	-	-	1,900,800	-	1,900,800
2025	-	-	1,905,500	-	1,905,500
2026	-	-	1,902,300	-	1,902,300
	<u>\$1,056,131</u>	<u>\$ 1,906,080</u>	<u>\$ 37,300,679</u>	<u>\$ 1,796,882</u>	<u>\$ 42,059,772</u>

The sinking fund reserve requirement is the maximum total debt service on bonds due in future years. Therefore, the sinking fund reserve requirement as of June 30, 2006 is \$3,299,323. The HWEA is setting aside funds to meet this requirement.



HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES  
 For the Years Ended June 30, 2006 and 2005

	2006		2005	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Water Source of Supply</b>				
Labor	\$ 5,036	0.06%	\$ 4,988	0.06%
Supplies	554	0.01%	534	0.01%
Utilities	41,924	0.46%	6,662	0.08%
Grounds and maintenance	2,577	0.03%	2,540	0.03%
<b>Total water source of supply</b>	<b>50,091</b>	<b>0.55%</b>	<b>14,724</b>	<b>0.18%</b>
<b>Water Purification</b>				
Supervision	49,327	0.55%	48,000	0.60%
Labor	269,103	2.98%	242,980	3.04%
Chemicals	501,397	5.55%	380,956	4.77%
Maintenance to structures	1,867	0.02%	2,894	0.04%
Maintenance to equipment	28,122	0.31%	20,453	0.26%
Supplies	10,584	0.12%	8,928	0.11%
Maintenance to reservoirs and tanks	3,499	0.04%	30	0.00%
Utilities	271,059	3.00%	275,235	3.45%
Training and education	743	0.01%	1,553	0.02%
Laboratory work	56,440	0.62%	56,693	0.71%
Laboratory supplies and expense	16,494	0.18%	17,627	0.22%
Plant security	27	0.00%	-	0.00%
Grounds and maintenance	1,744	0.02%	2,641	0.03%
Transportation expense	4,984	0.06%	3,112	0.04%
Miscellaneous	781	0.01%	1,161	0.01%
<b>Total water purification</b>	<b>1,216,171</b>	<b>13.46%</b>	<b>1,062,263</b>	<b>13.30%</b>
<b>Water Distribution</b>				
Supervision	50,601	0.56%	41,292	0.52%
Labor	221,397	2.45%	195,829	2.45%
Supplies	105,237	1.16%	71,207	0.89%
Repairs to structures	-	0.00%	10,350	0.13%
Repairs to distribution mains	52,117	0.58%	47,747	0.60%
Repairs to services	16,211	0.18%	7,975	0.10%
Repair to meters	2,385	0.03%	391	0.00%
Removing and resetting meters	45,419	0.50%	44,380	0.56%
Repairs to fire hydrants	2,435	0.03%	2,458	0.03%
Transportation expense	31,624	0.35%	25,480	0.32%
Gas, oil, tires, etc-tractor/compressor	20,980	0.23%	19,878	0.25%
Grounds and maintenance	10,969	0.12%	9,324	0.12%
Training, education and licenses	1,781	0.02%	1,284	0.02%
Small tools	296	0.00%	-	0.00%
Miscellaneous	62	0.00%	-	0.00%
<b>Total water distribution</b>	<b>561,514</b>	<b>6.22%</b>	<b>477,595</b>	<b>5.98%</b>
<b>Subtotal carried forward</b>	<b>\$ 1,827,776</b>	<b>20.23%</b>	<b>\$ 1,554,582</b>	<b>19.47%</b>

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES  
 For the Years Ended June 30, 2006 and 2005

	2006		2005	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	\$ 1,827,776	20.23%	\$ 1,554,582	19.47%
<b>Water Technical Services</b>				
Labor	78,212	0.87%	75,249	0.94%
Supplies	1,866	0.02%	1,619	0.02%
Training, education and licenses	639	0.01%	1,365	0.02%
Transportation expense	5,061	0.06%	5,025	0.06%
Miscellaneous	415	0.00%	400	0.01%
Total water technical services	86,193	0.95%	83,658	1.05%
<b>Water Administrative and General</b>				
Commissioners' fees	3,000	0.03%	3,000	0.04%
Office salaries	315,818	3.50%	307,068	3.85%
Meter reading and collecting salaries	43,760	0.48%	44,280	0.55%
Employee benefits	472,262	5.23%	485,413	6.08%
Office supplies	37,290	0.41%	35,073	0.44%
Postage	23,143	0.26%	23,590	0.30%
Telephone	16,813	0.19%	19,027	0.24%
Insurance and bonds	132,063	1.46%	121,527	1.52%
Professional services	37,416	0.41%	25,458	0.32%
Safety program	31,073	0.34%	29,708	0.37%
Office building maintenance	30,745	0.34%	29,207	0.37%
Bad debts, net	28,579	0.32%	20,758	0.26%
Training, education and licenses	2,898	0.03%	3,545	0.04%
Transportation expense	8,821	0.10%	7,560	0.09%
Miscellaneous	31,989	0.35%	25,459	0.32%
Total water administrative and general	1,215,670	13.46%	1,180,673	14.78%
Total water operating expense other than depreciation	\$ 3,129,639	34.64%	\$ 2,818,913	35.30%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES  
 For the Years Ended June 30, 2006 and 2005

	2006		2005	
	Amount	% of Net Revenues	Amount	% of Net Revenues
<b>Wastewater Treatment Plant</b>				
Supervision	\$ 50,393	0.56%	\$ 49,201	0.62%
Labor	248,215	2.75%	221,989	2.78%
Chemicals and materials	34,366	0.38%	29,960	0.38%
Supplies and tools	13,189	0.15%	11,872	0.15%
Lights, power, water, and fuel oil	409,090	4.53%	388,150	4.86%
Transportation expense	19,890	0.22%	15,394	0.19%
Repairs - machinery and equipment	36,149	0.40%	22,435	0.28%
Repairs - buildings	2,446	0.03%	5,922	0.07%
Maintenance of pump stations	103,615	1.15%	109,110	1.37%
Laboratory work	95,999	1.06%	100,331	1.26%
Laboratory supplies and expense	12,537	0.14%	12,871	0.16%
Permit - pretreatment compliance	36,172	0.40%	38,721	0.48%
Sludge disposal	87,949	0.97%	96,109	1.20%
Training, education and licenses	420	0.00%	685	0.01%
Miscellaneous	109	0.00%	-	0.00%
	1,150,539	12.74%	1,102,750	13.81%
<b>Wastewater Mains and Laterals</b>				
Supervision	33,086	0.37%	36,391	0.46%
Labor	54,662	0.61%	53,829	0.67%
Supplies and tools	32,309	0.36%	33,338	0.42%
Repairs - mains and laterals	19,333	0.21%	21,070	0.26%
Repairs - truck and sewerage equipment	2,779	0.03%	3,051	0.04%
Gas, oil, and tires	4,816	0.05%	1,992	0.03%
Developer rebates	9,258	0.10%	22,803	0.29%
	156,243	1.73%	172,474	2.16%
<b>Wastewater Technical Services</b>				
Labor	85,234	0.94%	75,191	0.94%
Supplies	1,866	0.02%	1,619	0.02%
Training, education and licenses	639	0.01%	1,365	0.02%
Transportation expense	5,063	0.06%	5,026	0.06%
Miscellaneous	413	0.00%	400	0.01%
	93,215	1.03%	83,601	1.05%
Subtotal carried forward	\$ 1,399,997	15.50%	\$ 1,358,825	17.02%

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
 WATER AND WASTEWATER DEPARTMENTS  
 A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
 SCHEDULE OF OPERATING EXPENSES  
 For the Years Ended June 30, 2006 and 2005

	2006		2005	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Subtotal carried forward	\$ 1,399,997	15.50%	\$ 1,358,825	17.02%
<b>Sewerage Administrative and General</b>				
Commissioners' fees	3,000	0.03%	3,000	0.04%
Office salaries	312,898	3.46%	301,891	3.78%
Meter reading and collecting salaries	43,687	0.48%	43,381	0.54%
Employee benefits	396,842	4.39%	427,218	5.35%
Office supplies	37,008	0.41%	33,106	0.41%
Postage	23,143	0.26%	23,591	0.30%
Telephone	16,843	0.19%	19,057	0.24%
Insurance and bonds	131,251	1.45%	121,528	1.52%
Professional services	40,366	0.45%	25,459	0.32%
Office building maintenance	30,551	0.34%	28,988	0.36%
Bad debts, net	28,321	0.31%	18,970	0.24%
Training, education and licenses	2,899	0.03%	4,250	0.05%
Safety program	31,073	0.34%	29,592	0.37%
Transportation expense	8,822	0.10%	7,560	0.09%
Miscellaneous	32,162	0.36%	25,607	0.32%
Total sewer administrative and general	1,138,866	12.61%	1,113,198	13.94%
Total sewerage operating expense other than depreciation	\$2,538,863	28.10%	\$2,472,023	30.95%

**HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENT  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
For the year ended June 30, 2006**

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Total Disbursements/ Expenditures</u>	<u>Adjustments</u>	<u>Federal Disbursements/ Expenditures</u>
<u>Loan</u>					
U.S. Environmental Protection Agency:					
DWSRF Pass-through from the State of Kentucky Infrastructure Authority*	66.468	LOAN-F02-04	\$ -	\$ 225,025	\$ 225,025
CWSRF Pass-through from the State of Kentucky Infrastructure Authority*	66.458	LOAN-A03-05	194,588	(89,070)	105,518
CWSRF Pass-through from the State of Kentucky Infrastructure Authority*	66.458	LOAN-A04-05	1,415,819	(662,280)	753,539
<i>Total Federal Expenditures for the period.</i>					\$ 1,084,082

\*Denotes major program

**NOTE A - BASIS OF PRESENTATION**

This schedule of expenditures of federal awards includes the federal grant activity of Hopkinsville Water Environment Authority, a component unit of the City of Hopkinsville, Kentucky. This schedule is presented on the cash basis of accounting, due to the nature of the federal programs reported upon. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**& CO. – HOPKINSVILLE, LLP**

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FIRM ID # 61-1313802

LEONARD F. ADCOCK, CPA  
JOHN M. DeANGELIS, CPA  
KERRY T. FORT, CPA

**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 the accompanying financial statements of the Hopkinsville Water Environment Authority (HWEA) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 23, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the HWEA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, the commission members of the HWEA, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

York, Neel & Co. - Hopkinsville, LLP

Hopkinsville, Kentucky  
October 23, 2006



**& CO. - HOPKINSVILLE, LLP**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the Hopkinsville Water Environment Authority (HWEA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The HWEA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the HWEA's management. Our responsibility is to express an opinion on the HWEA's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the HWEA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the HWEA's compliance with those requirements.

In our opinion, the HWEA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.



### Internal Control Over Compliance

The management of the Hopkinsville Water Environment Authority (HWEA) is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the HWEA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management, the commission members of the HWEA, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*York, Neel & Co. - Hopkinsville, LLP*

Hopkinsville, Kentucky  
October 23, 2006

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the year ended June 30, 2006

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Hopkinsville Water Environment Authority (HWEA).
2. No reportable conditions were noted during the audit of the financial statements of the Hopkinsville Water Environment Authority (HWEA).
3. No instances of noncompliance material to the financial statements of the Hopkinsville Water Environment Authority (HWEA) were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Hopkinsville Water Environment Authority (HWEA) expressed an unqualified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 were disclosed during the audit.
7. The programs tested as major programs included Environmental Protection Agency as Passed Through the Kentucky Infrastructure Authority Clean Water State Revolving Fund and Drinking Water State Revolving Fund.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Hopkinsville Water Environment Authority (HWEA) was determined to be a low-risk auditee.

**B. Findings - Financial Statements Audit**

REPORTABLE CONDITIONS

None

**C. Findings and Questioned Costs - Major Federal Award Program Audit**

*U.S. ENVIRONMENTAL PROTECTION AGENCY*

Pass-through from Kentucky Infrastructure Authority  
Clean Water State Revolving Fund  
Drinking Water State Revolving Fund

None

HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
WATER AND WASTEWATER DEPARTMENTS  
A COMPONENT UNIT OF THE CITY OF HOPKINSVILLE, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the year ended June 30, 2006

The Hopkinsville Water Environment Authority had no prior audit findings.

