HOPKINSVILLE ELECTRIC SYSTEM

OF THE

CITY OF HOPKINSVILLE, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2015 AND 2014

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

The Board of the
Hopkinsville Electric System of the
City of Hopkinsville, Kentucky
Hopkinsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

American Institute of Certified Public Accountants ~ Kentucky Society of Certified Public Accountants

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky as of June 30, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 18 to the financial statements, in 2015, the Hopkinsville Electric System of the City of Hopkinsville, Kentucky adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements. The accompanying additional information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's internal control over financial reporting and compliance.

Kem, Duguid & Associates, P.S.C.
Kem, Duguid & Associates, P.S.C.
Certified Public Accountants
Hopkinsville, Kentucky

October 23, 2015

MANAGEMENT’S DISCUSSION AND ANALYSIS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

The management of Hopkinsville Electric System of the City of Hopkinsville (HES, the "System") offers Management's Discussion and Analysis to provide an overview and analysis of the System's financial activities for the year ended June 30, 2015. To fully understand the entire scope of the System's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL HIGHLIGHTS

- The assets of HES exceeded its liabilities at the close of the 2015 fiscal year by $19,654,287 (*net position*).

- The System's total net position decreased by $2,708,332 during the period. The components of this decrease was an increase in net position of electric operations of $1,127,619; an increase in net position of telecom operations of $427,049; and a prior period adjustment of $4,263,000 decreasing the beginning net position to implement GASB 68 related to incorporating the net pension liability into the financial statements of the Utility.

- Total operating revenues for the 2015 fiscal year decreased by $573,962 or about 1.43% compared to the previous period.

- FY 2015 operating expenses totaled $37,674,409 which was $1,005,987 or about 2.60% less than the previous year's amount.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Electric System's basic financial statements. The System's basic financial statements are comprised of two components: (1) basic financial statements and (2) notes to basic financial statements. The basic financial statements and notes to these statements reflect the combined accounts and activities of both the electric and broadband divisions. The report also contains other supplementary information in addition to the basic financial statements. The supplementary information section contains statements that show the results of operations for the separate divisions.

The basic financial statements provide information about the Board's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

REQUIRED FINANCIAL STATEMENTS

The financial statements of the System report information utilizing the full accrual basis of accounting. This method of accounting recognizes revenues when earned instead of when received and recognizes expenses when incurred rather than when paid. The financial statements conform to accounting principles which are generally accepted in the United States of America.

Statement of Net Position

The Statement of Net Position includes information on the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the System's operations over the course of the operating cycle. This statement can be used to determine whether the System has successfully recovered all of its actual costs including depreciation through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and delayed payment of current year expenses.

Statement of Cash Flows

The Statement of Cash Flows provides information on the System's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash balance for the operating cycle.

Financial Analysis of the Fiscal Year Ended June 30, 2015

Over the past year, total assets of the System decreased by $476,335 while total liabilities increased by $2,391,446. And for the current period, the net operating income of the System totaled $1,706,593. Net operating income include $1,250,258 from Electric and $456,335 from Telecommunications.

Condensed Statements of Net Position

The Statement of Net Position, shown in tabular format below, represents information on all of the System's assets and liabilities with the difference between the two reported as net position. The System's total net position increased (excluding GASB 68 prior period adjustment) from the prior year by $1,554,668 or about 6.95% for the period.

Our analysis that follows focuses on the System's net position (shown in Table 1) and the changes in net position (shown in Table 2) during the year.

TABLE 1
Condensed Statements of Net Position

	Fiscal Year		Change in FY 2015 to FY 2015	
	2015	2014	Amount	Percent
Current and other assets	$ 10,981,042	$ 11,510,441	$ (529,399)	-4.60%
Capital assets	32,079,712	32,026,648	53,064	0.17%
TOTAL ASSETS	43,060,754	43,537,089	(476,335)	-1.09%
Deferred outflows	528,249	-	528,249	100%
Current liabilities	9,061,754	9,452,946	(391,192)	-4.14%
Long-term liabilities	14,504,162	11,721,524	2,782,638	23.74%
TOTAL LIABILITIES	23,565,916	21,174,470	2,391,446	11.29%
Deferred inflows	368,800	-	368,800	100%
Invested in utility plant, net of related debt	21,402,803	20,069,427	1,333,376	6.64%
Restricted for capital projects	577,712	577,705	7	0.00%
Restricted for debt service	244,555	335,408	(90,853)	-27.09%
Unrestricted *	(2,570,783)	1,380,079	(3,950,862)	-286.28%
TOTAL NET POSITION	$ 19,654,287	$ 22,362,619	$ (2,708,332)	-12.11%

*Beginning unrestricted net position decreased by $4,263,000 to implement GASB 68 related to incorporating the net pension liability into the financial statements. See footnote 18 for more information.

Analysis of Net Position

To better understand the System's actual financial positions and its ability to deliver services in future periods, the reader will need to review the various components of the net position category and obtain an understanding of how each relate specifically to the business activities that we perform. For example, the vast majority of net position ($21,402,803 or 108.06% of total net position) represents investment in plant assets, which is the lifeblood to the provision of electric and telecommunication services.

**TABLE 2
Components of Net Position**

	Fiscal Year		Change FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Invested in capital assets, net of related debt	$ 21,402,803	$ 20,069,427	$ 1,333,376	6.64%
Restricted for capital projects	577,712	577,705	7	0.00%
Restricted for debt service	244,555	335,408	(90,853)	-27.09%
Unrestricted	(2,570,783)	1,380,079	(3,950,862)	-286.28%
	$ 19,654,287	$ 22,362,619	$ (2,708,333)	-12.11%

For the 2015 fiscal year, *Net Position Invested in Capital Assets, Net of Related Debt* increased by $1,333,376 or 6.64% compared to the previous year. The amount shown in this category is calculated by taking the depreciated value of our capital assets and subtracting the associated bond debt. The significance of this increase on future operations is that it represents additional equity that the System has accumulated in its plant, equipment and infrastructure.

Compared to the prior year's balance, there was a decrease in the *Unrestricted Net Position* category of $3,950,862 or 286.28%. The majority of the decrease is a result of implementing GASB 68 related to incorporating the net pension liability ($4,263,000) into the financial statements.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Analysis of Current Assets

The textbook definition of "current assets" is balance sheet items which equal the sum of cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses, and other assets that could be converted to cash in less than one year. Current assets are important in any financial analysis because it is from current assets that a business funds its ongoing, day-to-day operations. A comparison of the June 30, 2015 and 2014 balances by asset classification are shown in the table below.

TABLE 3
Comparison of Current Assets

	Fiscal Year		Change from FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Cash and cash equivalents	$ 3,838,396	$ 3,934,833	$ (96,437)	-2.45%
Accounts receivable (net)	2,884,190	3,295,093	(410,903)	-12.47%
Unbilled revenue	1,173,945	1,074,887	99,058	9.22%
Inventories	896,958	828,695	68,263	8.24%
Prepaid expenses	112,374	86,083	26,291	30.54%
Other	60,105	60,045	60	0.10%
	$ 8,965,968	$ 9,279,636	$ (313,668)	-3.38%

Analysis of Noncurrent Assets

Noncurrent assets represent assets that are not reasonably expected to be realized in cash or sold or consumed during the next fiscal year. When making the distinction between whether an asset should be considered current or noncurrent, liquidity or nearness to cash is not the proper basis for determining the classification. In making this determination, any encumbrances on the use of the asset must be considered. Thus, cash investments intended for liquidation or liabilities due beyond the one-year period are noncurrent assets, as would assets segregated or restricted for the liquidation of long-term debts (including amounts due within the next operating cycle). Assets designated to be used to acquire, construct, or improve capital assets would also be noncurrent.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

TABLE 4
Comparison of Noncurrent Assets

	Fiscal Year		Change from FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Restricted:				
Investments - special funds	$ 822,267	$ 913,113	$ (90,846)	-9.95%
Investment in affiliated organization	147,408	110,394	37,014	33.53%
Nonutility property	33,958	33,958	-	0.00%
Deferred charges	124,844	140,118	(15,274)	-10.90%
Heat pump loans	886,597	1,033,222	(146,625)	-14.19%
Capital assets (net)	32,079,712	32,026,648	53,064	0.17%
	$ 34,094,786	$ 34,257,453	$ (162,667)	-0.47%

The table above demonstrates the relatively large investment that the System has made in capital assets. At the end of the 2015 fiscal year, capital assets represented about 94.08% of the noncurrent assets.

In examining the balance for the Restricted Noncurrent Assets category at June 30, 2015, it shows a decrease of $90,846 or 9.95% compared to the previous fiscal year.

Analysis of Liabilities

In financial accounting, the term "liability" is defined as an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. To put it in more simplistic terms, this section analyzes the various claims that creditors have against the System's assets.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

TABLE 5
Comparison of Current Liabilities from Unrestricted Net Position

	Fiscal Year		Change From FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Accounts payable - purchased power	$ 4,562,699	$ 5,163,128	$ (600,429)	-11.63%
Accounts payable - other	269,401	328,613	(59,212)	-18.02%
Customer deposits	1,787,691	1,637,206	150,485	9.19%
Accrued taxes	268,892	290,738	(21,846)	-7.51%
Accrued interest	1,812	2,032	(220)	-10.83%
Deferred revenue - MuniNet	121,864	128,634	(6,770)	-5.26%
Other current and accrued liabilities	743,960	616,496	127,464	20.68%
	$ 7,756,319	$ 8,166,847	$ (410,528)	-5.03%

Current Liabilities Payable from Unrestricted Assets had a net decrease in its various components of $410,528 or about 5.03% compared to the previous fiscal year's balance.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

As indicated in Table 6, the change in net position for the fiscal year ended June 30, 2015 was $1,554,668 (excluding implementation of GASB 68).

TABLE 6
Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year		Change From FYE 2014 To FYE 2015	
	2015	2014	Amount	Percent
Operating revenues:				
Electric revenues	$ 36,368,335	$ 37,062,945	$ (694,610)	-1.87%
Telecom revenues	3,303,237	3,182,589	120,648	3.79%
Total operating revenues	39,671,572	40,245,534	(573,962)	-1.43%
Operating expenses:				
Purchased power	27,757,025	28,445,310	(688,285)	-2.42%
Other expenses	9,917,384	10,235,086	(317,702)	-3.10%
Total operating expenses	37,674,409	38,680,396	(1,005,987)	-2.60%
Net operating income	1,997,163	1,565,138	432,025	27.60%
Non-operating income, net	(442,495)	(308,398)	(134,097)	43.48%
Change in net position	1,554,668	1,256,740	297,928	23.71%
Net position, beginning of year	22,362,619	21,105,879	1,256,740	5.95%
Implementation of GASB 68	(4,263,000)	-	(4,263,000)	100.00%
Net position, beginning of year restated	18,099,619	21,105,879	(3,006,260)	-14.24%
Net position, end of year	$ 19,654,287	$ 22,362,619	$ (2,708,332)	-12.11%

Analysis of Revenue

For the 2015 fiscal year, The *Operating Revenues* of the System totaled $39,671,572. This amount represented a decrease of 1.43% more than the previous year's total of $40,245,534.

Included in the *Non-Operating Revenues* (net) of $442,495 is interest income of $3,152, interest expense of $431,677, amortization expense of $15,274 and other income of $1,304.

Analysis of Expenses

The *Total Operating Expenses* for FY 2015 were $37,674,409. That amount represents an decrease of $1,005,987 or about 2.60% less than the prior fiscal year total of $38,680,396. The eight major categories of Operating Expenses are shown in the chart below.

TABLE 7
Comparison of Operating Expenses

	Fiscal Year		Change from FY 2014 to FY 2015	
	2015	2014	Amount	Percent
Cost of power	$ 27,757,025	$ 28,445,310	$ (688,285)	-2.42%
Cost of sales - telecom	193,675	228,639	(34,964)	-15.29%
Distribution:				
operation	2,211,155	2,151,715	59,440	2.76%
maintenance	1,132,462	1,092,782	39,680	3.63%
Transmission - maintenance	5,555	805	4,750	590.06%
Customer accounts	772,819	801,037	(28,218)	-3.52%
Sales	142,008	132,315	9,693	7.33%
Administrative and general	2,003,111	2,259,509	(256,398)	-11.35%
Depreciation	2,115,539	2,183,633	(68,094)	-3.12%
Taxes	1,341,060	1,384,651	(43,591)	-3.15%
	$ 37,674,409	$ 38,680,396	$ (1,005,987)	-2.60%

As indicated by the comparative information presented above, *Cost of Power* decreased by $688,285 or 2.42% compared to the prior year. The decrease in cost of power was a direct correlation to energy sale increase with cost of power to energy sales being 76.32% this year and 76.74% last year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Hopkinsville Electric System's investment in capital assets as of June 30, 2015 was $32,079,712 (net of accumulated depreciation), as shown in the following table.

TABLE 8
Schedule of Capital Assets (Net of Depreciation)

	Fiscal Year		Increase
	2015	2014	(Decrease)
Land	$ 431,057	$ 431,057	$ -
Construction in progress-			
Electric	1,189,546	651,005	538,541
Telecommunications	243,671	259,629	(15,958)
Transmission plant	444,649	395,048	49,601
Distribution plant	17,106,358	17,184,908	(78,550)
General plant	1,450,475	1,627,367	(176,892)
Telecommunications plant	11,213,956	11,477,634	(263,678)
Total capital assets	$ 32,079,712	$ 32,026,648	$ 53,064

Additional detailed information concerning the System's capital assets can be found in Note 2 in the notes to the financial statements.

Long-term Debt

At June 30, 2015, the System had roughly $10 million in debt outstanding, a decrease of $1,286,099 or approximately 10.72% less than the previous fiscal year. The System's debt is comprised of various bonds and notes. A comparative schedule at June 30, 2015 and 2014 is shown in the tabular information provided below.

TABLE 9
Schedule of Long Term Debt

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)
Revenue bond	$ 830,417	$ 925,417	$ (95,000)
KY League of Cities leases	7,462,716	8,361,122	(898,406)
KIA loan	2,416,652	2,709,345	(292,693)
	$ 10,709,785	$ 11,995,884	$ (1,286,099)

Additional detailed information concerning the System's liabilities can be found in the notes to the financial statements, Note 8.

Economic Factors

Although the System had a healthy income margin this year, the future financial condition of the System will be affected by two factors in the future: weather conditions and the length of the current recession. Weather is a tremendous driver in kWh sales – extreme hot conditions and extreme cold conditions will drive up kWh sales and mild temperatures drive down usage.

Also affecting the System's financial condition is the recent change to Seasonal Demand and Energy rates put in place by TVA. These rates were implemented April 1, 2011. TVA is trending toward all utilities being billed under Time-of-Use (TOU) rates. When this will be mandatory is still a huge question. HES moved forward with installing new electronic metering system to accommodate TOU rates, eliminate manual meter reading, connection/disconnect of service and provide better information to customers on energy volume.

HES EnergyNet continues to gain high speed broadband customers. Annual net income was $427,049 for the current year compared to a net income the prior year of $441,169 when expenditures were increased due to expansion.

As we demonstrate financial responsibility, we continue to strive to deliver the highest quality of services to our community at the lowest feasible cost.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Hopkinsville Electric System's finances for all those with an interest in the System's finances. Questions or requests for additional information may be addressed to Austin Carroll, Manager, Hopkinsville Electric System, 1820 East Ninth Street, Hopkinsville, KY 42240.

FINANCIAL STATEMENTS

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

ASSETS

	2015	2014
Utility plant	$ 51,811,427	$ 49,877,222
Less accumulated depreciation	19,731,715	17,850,574
Net utility plant	32,079,712	32,026,648
Restricted assets		
Investments - special funds	822,267	913,113
Other assets		
Investment in affiliated organizations	147,408	110,394
Nonutility property	33,958	33,958
Heat pump loans	886,597	1,033,222
	1,067,963	1,177,574
Current assets		
Cash - general funds	3,838,396	3,934,833
Accounts receivable (less accumulated provision for uncollectible accounts of $27,622 in 2015 and $30,804 in 2014)	2,884,190	3,295,093
Unbilled revenue	1,173,945	1,074,887
Inventories (at weighted-average cost)	896,958	828,695
Prepaid expenses	112,374	86,083
Other current assets	60,105	60,045
Total current assets	8,965,968	9,279,636
Deferred charges	124,844	140,118
Total assets	43,060,754	43,537,089
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension amounts	$ 528,249	-

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF NET POSITION, continued
JUNE 30, 2015 AND 2014

LIABILITIES	**2015**	**2014**
Current liabilities		
Current maturities of long-term debt	1,305,435	1,286,099
Accounts payable - purchased power	4,562,699	5,163,128
Accounts payable - other	269,401	328,613
Customer deposits	1,787,691	1,637,206
Accrued taxes	268,892	290,738
Accrued interest	1,812	2,032
Unearned revenue - MuniNet	121,864	128,634
Other current & accrued liabilities	743,960	616,496
Total current liabilities	9,061,754	9,452,946
Noncurrent liabilities		
Long-term debt	9,371,474	10,671,122
Net pension liability	4,225,200	-
Advances from others:		
Conservation advances - TVA	907,488	1,050,402
Total noncurrent liabilities	14,504,162	11,721,524
Total liabilities	23,565,916	21,174,470
DEFERRED INFLOWS OF RESOURCES		
Deferred pension amounts	368,800	-
NET POSITION		
Invested in capital assets, net of related debt	21,402,803	20,069,427
Restricted for capital projects	577,712	577,705
Restricted for debt service	244,555	335,408
Unrestricted	(2,570,783)	1,380,079
Total net position	$ 19,654,287	$ 22,362,619

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES	$ 39,671,572	$ 40,245,534
OPERATING EXPENSES		
Cost of power	27,757,025	28,445,310
Cost of sales - telecommunications	193,675	228,639
Distribution - operation	2,211,155	2,151,715
- maintenance	1,132,462	1,092,782
Transmission - maintenance	5,555	805
Customer accounts	772,819	801,037
Sales	142,008	132,315
Administrative and general	2,003,111	2,259,509
Depreciation	2,115,539	2,183,633
Taxes	1,341,060	1,384,651
Total operating expenses	37,674,409	38,680,396
Net operating revenues	1,997,163	1,565,138
NONOPERATING REVENUES (EXPENSES)		
Interest on long-term debt	(414,330)	(307,860)
Other interest	(17,347)	(19,879)
Amortization of debt expense	(15,274)	(12,069)
Interest income	3,152	18,304
Other revenue (expenses)	1,304	13,106
Net nonoperating revenues (expenses)	(442,495)	(308,398)
CHANGE IN NET POSITION	1,554,668	1,256,740
NET POSITION, BEGINNING OF YEAR	22,362,619	21,105,879
Implementation of GASB 68 (Note 18)	(4,263,000)	-
NET POSITION, BEGINNING OF YEAR, restated	18,099,619	21,105,879
NET POSITION, END OF YEAR	$ 19,654,287	$ 22,362,619

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Receipts from customers and users	$ 39,983,357	$ 39,939,817
Payments to suppliers	(31,756,820)	(31,395,248)
Payments to employees	(2,924,650)	(2,876,126)
Payments of taxes	(1,362,906)	(1,466,619)
Net cash provided (used) by operating activities	3,938,981	4,201,824
Cash flows from capital financing activities		
Expenditures for utility plant	(2,287,101)	(2,227,709)
Net cost of retiring plant	(98,107)	(71,836)
Principal payments on long-term debt	(1,286,099)	(1,448,257)
Conservation advances from TVA	(142,914)	(19,073)
Interest paid	(426,110)	(316,825)
Net cash provided (used) by capital financing activities	(4,240,331)	(4,083,700)
Cash flows from investing activities		
Conservation loan receivable	146,625	18,427
Investment in affiliated companies	(37,014)	(34,971)
Purchases/maturities of investments	90,846	1,122,137
Interest and other revenues	4,456	31,366
Net cash provided (used) by investing activities	204,913	1,136,959
Net increase (decrease) in cash	(96,437)	1,255,083
Cash, beginning of year	3,934,833	2,679,750
Cash, end of year	$ 3,838,396	$ 3,934,833

See accompanying notes to financial statements

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
STATEMENTS OF CASH FLOWS, continued
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Net operating revenues	$ 1,997,163	$ 1,565,138
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation	2,332,144	2,269,086
Changes in assets and liabilities:		
Receivables	410,903	(322,811)
Unbilled revenues	(99,058)	6,612
Materials and supplies	(68,263)	(54,663)
Prepaid expenses and other current assets	(26,351)	2,853
Accounts payable	(659,641)	526,948
Deferred pension amounts	(197,249)	-
Accrued taxes	(21,846)	(81,968)
Other current and accrued liabilities	127,464	139,009
Unearned pole rental	-	79,214
Customer deposits	150,485	79,177
Unearned revenue - MuniNet	(6,770)	(6,771)
Total adjustments	1,941,818	2,636,686
	$ 3,938,981	$ 4,201,824

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Electric Plant Board of the City of Hopkinsville (d.b.a. Hopkinsville Electric System) was created by Ordinance No. 382, passed June 2, 1942, pursuant to authority conferred upon the City by Chapter 119 of the General Assembly of Kentucky, 1932, amended.

The Board was established for the purpose of owning and operating all properties, real, personal, and mixed tangible or intangible, acquired or used or held for use, in connection with the electric plant acquired by purchase from Kentucky – Tennessee Light and Power Company.

The Board consists of four appointed members, the term of one expiring each year, and a fifth member from the City's governing body, presently represented by Thomas Grant, a member of the Common Council. The Hopkinsville Electric System elects its own officers and management.

Basis of Presentation and Accounting

The records of the Board are maintained in accordance with provisions of the power contract with the Tennessee Valley Authority, and are consistent with requirements of the Federal Energy Regulatory Commission's system of accounts. Revenues and expenses are recognized on the accrual basis.

Proprietary Fund Type

The Board is intended to be self-supporting through user charges. All of its revenues, expenses, assets, and liabilities, including fixed assets and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the System considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Material and Supplies Inventory

Material and supplies inventory (which consists of wire, poles, and other supplies) is valued at cost determined by the weighted-average method.

Utility Plant

Utility plant is stated at original cost, which includes payroll related costs such as taxes, fringe benefits, and administrative and general costs. Interest expense incurred during a construction period is capitalized. Construction work in progress has been included in the rate base for determining retail customer rates. The System has not recorded any significant allowance for funds used during construction.

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with its cost of removal less salvage, is charged to the accumulated provision for depreciation. The System charges maintenance and repairs, including the cost of renewals of minor items of property, to maintenance expense accounts or applicable clearing accounts. Placements of property (exclusive of minor items of property) are capitalized to utility plant accounts.

Depreciation

Property and equipment in plant accounts are recorded at cost with depreciation being computed at rates recommended by the Tennessee Valley Authority. The rates used throughout the current year were consistent with those in use in the prior year.

Compensated Absences

Full-time employees are allowed to carryover a maximum of forty (40) hours accumulated annual leave. Upon retirement from Hopkinsville Electric System, the employee is entitled to payment for unused accumulated annual leave time. Accrued vacation leave was $606,134 and $509,146 for the years ended June 30, 2015 and 2014, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2015 and 2014.

Pensions

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utility has one item that qualifies for reporting in this category. The deferred outflows or resources relates to the net pension liability described in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Utility has one item that qualifies for reporting in this category. The deferred inflows of resources relates to the net pension liability as described in Note 10.

Revenues and Expenses

Proprietary funds distinguish between operating and non-operating items. Operating revenues generally result from providing services, producing, and delivering goods in connection with the System's principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position

Net position is categorized as invested in capital assets (net of related debt), restricted, and unrestricted and further described as follows.

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted* - This category represents those assets which have constraints placed on the expenditures either externally imposed or imposed by law or enabled by legislature.

- *Unrestricted* - This category presents the net position of the Board not included elsewhere.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Income Tax Status

The System is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for such taxes.

Subsequent Events

Subsequent events have been evaluated through October 23, 2015, which is the date the financial statements were available to be issued.

NOTE 2 – UTILITY PLANT AND DEPRECIATION PROCEDURES

A summary of changes in major classifications of the utility plant in service is as follows:

	Balance June 30, 2014	Additions	Reclassifications/ Retirements	Balance June 30, 2015
Utility plant not depreciated:				
Land	$ 431,055	$ -	$ -	$ 431,055
Construction in progress - electric	651,006	538,541	-	1,189,547
Construction in progress - telecommunications	259,647	-	15,966	243,681
Total utility plant not depreciated	1,341,708	538,541	15,966	1,864,283
Utility plant depreciated:				
Transmission plant	670,091	57,837	15,501	712,427
Distribution plant	26,642,456	716,717	140,786	27,218,387
General plant	5,441,994	184,487	13,801	5,612,680
Telecommunications plant	15,780,973	805,485	182,808	16,403,650
Total utility plant depreciated	48,535,514	1,764,526	352,896	49,947,144
Accumulated depreciation	(17,850,574)	(2,332,144)	451,003	(19,731,715)
Total utility plant depreciated, net	30,684,940	(567,618)	(98,107)	30,215,429
Total utility plant	$ 32,026,648	$ (29,077)	$ (82,141)	$ 32,079,712

Transmission plant depreciation rates have been applied on a straight-line basis and are as follows:

Towers and fixtures	2.00%
Poles and fixtures	3.00

NOTE 2 – UTILITY PLANT AND DEPRECIATION PROCEDURES, continued

Provision has been made for depreciation of Distribution Plant on a straight-line basis and rates are as follows:

Station equipment	4.00%
Poles, towers, and fixtures	4.00
Overhead conductors and devices	1.75
Underground equipment	4.00
Line transformers	2.00
Services	5.25
Meters	2.00
Security lighting	6.00
Street lighting and signal systems	3.75

General Plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and improvements	3.00%
Office furniture	VAR
Transportation equipment	25.00
Laboratory equipment	8.00

Transactions through the Accumulated Provision for Depreciation account for the years ended June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Accumulated provision for depreciation, July 1	$ 17,850,574	$ 16,268,377
Add:		
Depreciation charged directly to expense	2,115,540	2,183,633
Depreciation charged to transportation - clearing	216,604	85,453
Subtotal	20,182,718	18,537,463
Deduct:		
Original cost of plant retired	474,216	613,427
Cost of removal less salvage	(23,213)	73,462
Total charges against provision	451,003	686,889
Accumulated provision for depreciation, June 30	$ 19,731,715	$ 17,850,574

NOTE 3 – INVESTMENTS – SPECIAL FUNDS

Investments - Special Funds at June 30 consisted of:

	2015	2014
2007 Telecom bond issue fund	$ 244,555	$ 244,530
Certificate of deposit - BBT	-	90,878
New York Mellon-575036	577,712	577,705
Total investments - special funds	$ 822,267	$ 913,113

Excess monies in the above funds have been invested in certificates of deposit at local banks and in trust for short-term U.S. Government securities.

The operation and maintenance fund, established by the bond ordinance, is a reserve for extraordinary costs of operating and maintaining the plant over and above ordinary operation and maintenance.

At year end, the amount of total investments held in banks was $822,267, all of which was covered by collateral held in safekeeping by agents of the respective banks or by government backed securities.

Interest Rate Risk

The System does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, certificates of deposit are not subject to interest rate risk.

Custodial Credit Risk

Under Kentucky Revised Statutes Section 66.480, the System is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments held in possession of an outside party. The System does not have an investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk.

NOTE 4 – CASH - GENERAL FUND

The carrying amounts are reflected in the financial statements as follows:

	2015	2014
Change funds	$ 1,750	$ 1,750
Checking accounts	3,816,393	3,931,815
TVA power bill early payment	18	18
Sweeney College Fund	18,985	-
Other	1,250	1,250
Total	$ 3,838,396	$ 3,934,833

<u>Custodial Credit Risk</u>

Custodial credit risk is the risk that, in the event of a depository institution failure, the System's deposits may not be returned to it. The System does not have a policy regarding custodial credit risk for deposits.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky; bonds of any city, county, school district or special road district of the State of Kentucky; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of deposits.

At June 30, 2015, the Board's deposits in depository institutions had a carrying amount of $3,838,396 and bank balances of $3,935,602. At June 30, 2015, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement. At June 30, 2014, the System's deposits in depository institutions had a carrying amount of $3,934,833 and bank balances of $3,999,699. At June 30, 2014, the deposits were covered entirely by FDIC insurance or a properly executed collateral security agreement.

**HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 5 – RECEIVABLES

Net receivables include the following at June 30:

	2015	2014
Accounts Receivable		
Electric	$ 2,893,642	$ 3,323,411
	2,893,642	3,323,411
Other Receivables		
Employee appliance/computer loans	-	2,599
FEMA receivable	-	-
Other miscellaneous	18,170	(113)
	18,170	2,486
Total receivables	2,911,812	3,325,897
Less: Reserve for uncollectible accounts	(27,622)	(30,804)
Total	$ 2,884,190	$ 3,295,093

Electric accounts and miscellaneous accounts together with the current billing for home insulation, heat pump, and wood burning stove loans, were aged as follows:

	June 30, 2015		June 30, 2014	
	Amount	Percent	Amount	Percent
Accounts Having Discount Dates After June 30	$ 2,379,146	81.70	$ 3,064,216	92.13
Accounts With Credit Balances	-	-	-	-
Accounts Less Than One Month Past Due	-	-	-	-
Accounts 31 to 60 Days Past Due	137,718	4.71	151,317	4.55
Accounts 61 to 90 Days Past Due	29,425	1.09	49,231	1.48
Accounts Over 90 Days Past Due	365,523	12.50	61,133	1.84
	$ 2,911,812	100.00	$ 3,325,897	100.00

NOTE 5 – RECEIVABLES, continued

A reserve for uncollectible electric accounts is maintained by means of monthly charges to operations. Lists of accounts considered to be worthless are charged to the reserve account annually, with the last such list having been prepared as of June 30, 2015. Accounts charged off are turned over to various agencies for collection as authorized by HES.

A summary of the reserve's transactions for each year is as follows:

	2015	2014
Beginning balance	$ 30,804	$ 28,995
Monthly additions and adjustments	114,236	122,671
Charge-off of bad accounts	(122,917)	(124,005)
Recoveries	5,499	3,143
Balance, June 30	$ 27,622	$ 30,804

NOTE 6 – MATERIAL AND SUPPLIES

The values of electric materials at balance sheet dates were ascertained by reference to perpetual inventory records. Hopkinsville Electric System personnel make physical counts of stock at the end of each year and adjust the perpetual inventory records to actual count. The adjustment to the general ledger control is made to bring it into conformity with perpetual stock records. This amount is charged against stores expense (clearing) in January of each year. The positive (negative) adjustments required were ($8,666) and ($950) as of June 30, 2015 and 2014, respectively.

NOTE 7 – DEFERRED CHARGES

Deferred Charges at June 30 consisted of:

	2015	2014
Deferred costs on bond issue-2004	$ 929	$ 1,184
Deferred costs on bond issue-2007	80,671	90,652
Deferred costs on bond issue - 2013 KLC	43,244	48,282
Total	$ 124,844	$ 140,118

NOTE 8 – BONDED INDEBTEDNESS

On January 27, 2004, the System entered into a lease with Kentucky League of Cities Funding Trust to fund an electric substation/transformer. Payments of principal and interest are paid monthly with the last principal payment scheduled for February 15, 2019. The interest rate is 3.45 percent. This debt is secured by the property.

On August 1, 2008, the System entered into a lease with Kentucky League of Cities Funding Trust in the amount of $10,189,560 for refunding of the $4,000,000 Electric Revenue Bond Anticipation Notes, Series 2007A and $6,000,000 Electric Revenue Bond Anticipation Notes, Series 2007B. The proceeds of the notes were used to acquire improvements to the electric plant and distribution system, including broadband and telecommunications improvements and to pay issuance costs of the obligations. Payments of principal and interest are paid monthly with the last principal payment scheduled for August 1, 2023. The lease is to bear interest at a rate of 3.62% per annum. The debt is secured by revenues of the electric system. Interest paid on the 2007 bonds is capitalized during the construction phase. Capitalized interest for each year is $0 and $171,069 for June 30, 2015 and 2014, respectively.

On February 1, 2008, the System entered into a loan agreement with Kentucky Infrastructure Authority in the amount of $3,000,000 to assist in funding the construction of a fiber optic communication line from Hopkinsville, Kentucky to Bowling Green, Kentucky. The loan is to bear interest at 0.7% semi-annually. Interest payment dates for the loan are December 1 or June 1 succeeding the first draw which is at least three months, but no more than nine months, after the first draw. Principal payments will commence on June 1 or December 1 immediately succeeding the date of the last draw of funds. The loan is for ten years. The debt is secured by revenues of the telecommunications system.

On February 14, 2013, the System entered into a lease agreement with Kentucky Bond Corporation in the amount of $1,055,000 for system upgrades and enhancements for various projects. Monthly payments are made into the Debt Service Fund for principal retirement, interest payment and fees. The interest rate is 2 %. Debt is secured with the pledge of net revenues set forth in existing bond resolutions.

NOTE 8 – BONDED INDEBTEDNESS, continued

The changes in outstanding debt are as follows:

	Balance July 1, 2014	New Issues	Debt Payments and Refunds	Balance June 30, 2015
KY League of Cities-Series 2004	$ 1,329,872	$ -	$ 266,997	$ 1,062,875
Kentucky Infrastructure Authority	2,709,345	-	292,693	2,416,652
KY League of Cities - Series 2007	7,031,250	-	631,409	6,399,841
Revenue Bond, Series 2013A	925,417	-	95,000	830,417
	$ 11,995,884	$ -	$ 1,286,099	$ 10,709,785
Less: Unamortized discount				(32,876)
Net total				$ 10,676,909

The discount associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. The amount charged to interest expense for the year ending June 30 follows:

	2015	2014
Series 1998-A	$ -	$ 4,117
Series 2004	3,120	3,120
Series 2007	2,666	2,666
	$ 5,786	$ 9,903

The cost of issuance associated with the issuance of the revenue bonds payable is being amortized on the straight-line method over the term of the bonds. Amortization charged to expense for the year ending June 30 follows:

	2015	2014
Series 2004	$ 256	$ 256
Series 2007	9,980	9,980
Series 2013	5,038	1,833
	$ 15,274	$ 12,069

NOTE 8 – BONDED INDEBTEDNESS, continued

The following represents principal and interest payments on outstanding debt.

	Series 2004 Principal	Series 2004 Interest	Series 2004 Total	Series 2007 Principal	Series 2007 Interest	Series 2007 Total
2016	$ 253,031	$ 67,280	$ 320,311	$ 660,575	$ 279,872	$ 940,447
2017	310,214	8,069	318,283	692,427	249,294	941,721
2018	296,955	19,247	316,202	724,559	217,300	941,859
2019	202,675	5,716	208,391	758,608	183,789	942,397
2020-2024	-	-	-	3,563,672	369,288	3,932,960
	$ 1,062,875	$ 100,312	$ 1,163,187	$ 6,399,841	$ 1,299,543	$ 7,699,384

	Series 2013A Principal	Series 2013A Interest	Series 2013A Total	KIA 2013 Principal	KIA 2013 Interest	KIA 2013 Total
2016	$ 97,084	$ 18,643	$ 115,727	$ 294,745	$ 16,401	$ 311,146
2017	100,000	16,702	116,702	296,812	14,335	311,147
2018	102,084	14,702	116,786	298,894	12,254	311,148
2019	105,000	12,660	117,660	300,990	10,158	311,148
2020-2024	426,249	26,540	452,789	1,225,211	19,375	1,244,586
	$ 830,417	$ 89,247	$ 919,664	$ 2,416,652	$ 72,523	$ 2,489,175

	All Series Combined Principal	All Series Combined Interest	All Series Combined Total
2016	$ 1,305,435	$ 382,196	$ 1,687,631
2017	1,399,453	288,400	1,687,853
2018	1,422,492	263,503	1,685,995
2019	1,367,273	212,323	1,579,596
2020-2024	5,215,132	415,203	5,630,335
	$ 10,709,785	$ 1,561,625	$ 12,271,410

NOTE 9 – ADVANCES FROM OTHERS

Advances have been received from Tennessee Valley Authority for the purpose of making long-term loans to electric customers under various energy conservation programs. The balances due Tennessee Valley Authority were $907,488 and $1,050,402 as of June 30, 2015 and 2014, respectively.

NOTE 10 – PENSION PLANS

The System's employees are provided a pension plan through the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description – CERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. 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 from http://kyret.ky.gov/.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

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

NOTE 10 – PENSION PLANS, continued

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are $5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	Required contributions
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At June 30, 2015, the System reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the Utility as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Utility were as follows:

District's proportionate share of the CERS net pension liability	$ 4,225,200

The net pension liability of the plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The System's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the Utility's proportion was .12738%.

For the year ended June 30, 2015, the System recognized pension expense of ($349,174) related to CERS.

NOTE 10 – PENSION PLANS, continued

At June 30, 2014, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	461,000
Changes in proportion and differences between HES contributions and proportionate share of contributions	-	-
HES contributions subsequent to the measurement date	552,022	-
Total	$ 552,022	$ 461,000

The amount of $528,249 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	$ 92,200
2017	92,200
2018	92,200
2019	92,200
2020	-

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.50%
Projected salary increase	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

NOTE 10 – PENSION PLANS, continued

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by then adding expected inflation. The capital market assumptions involved by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate – For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows form investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the Utility, calculated using the discount rates selected by each pension system, as well as what the Utility's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
HES's proportionate share of net pension liability	$ 5,438,340	$ 4,225,200	$ 2,979,112

NOTE 10 – PENSION PLANS, continued

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

System's Thrift Plan

Plan Description – The System's employees hired after September 1, 1969 have the option to participate in the System's Thrift Plan, which consists of a 401K plan and a 401M plan.

Funding Policy – Employees who participate in the Plan may contribute up to 100% (in multiples of 1%) of their base annual compensation. Employees who elect to also participate in the 401M plan are limited to 14% in their contributions. All such amounts were deposited with the trustee, Manulife, Clarksville, Tennessee, to be held or invested in accordance with provisions in the Thrift Plan Trust Agreement executed November 24, 1969. Employer contributions, which totaled $102,004 and $99,131 in the years ended June 30, 2015 and 2014, respectively, are charged monthly to plant and expense in the same ratio as payroll.

NOTE 11 – POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired Board employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS plan.

NOTE 12 – OTHER CURRENT AND ACCRUED LIABILITIES

Following is a summary of the amounts recorded as other current and accrued liabilities as of June 30, 2015 and 2014:

	2015	2014
Accrued pole rentals	$ 33,780	$ 31,385
Accrued payroll	85,061	75,965
Compensated absences	606,134	509,146
Sweeney College Fund	18,985	-
	$ 743,960	$ 616,496

NOTE 13 – COMMITMENTS

Under its wholesale power agreement, dated April 20, 1982, the System is committed to purchase its electric power and energy requirements from the Tennessee Valley Authority (TVA). As provided by amendment dated October 1, 1997, the contract may be terminated by either party at any time upon not less than five years prior written notice. Neither party shall exercise its right to give notice of termination before the date occurring five years after the date of the agreement. The rates paid for such purchases are subject to change periodically by the supplier. As provided by amendment effective October 1, 1999, the System has a decreasing term contract beginning on that date. The term decreases one year each year until the term levels off at five years.

NOTE 14 – RISK MANAGEMENT AND LITIGATION

The System is exposed to various risks of loss related torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The System carries commercial insurance for the risks of loss, including worker’s compensation, and property and casualty loss insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage remain unchanged in the past three years.

From time to time, the System is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the System’s financial statements.

NOTE 15 – RATE INCREASE

Wholesale Base Rates: In April 2011, the Tennessee Valley Authority changed its wholesale rate calculation from one based on actual Retail Customer Usage to one based on Demand and Energy metered at the wholesale delivery point. The implementation of demand and energy rates along with mild weather patterns, has kept cost of purchased power to energy at a constant percentage—76.7% in fiscal year 2015 and 77.8% in fiscal year 2014.

Fuel Cost Adjustment: In October 2009, TVA changed from a quarterly FCA to monthly FCA. In April 2011, TVA separated its fuel cost, which had been included in its Base Rates prior to the implementation of the quarterly FCA in October 2007, and started to include it in its monthly FCA.

NOTE 15 – RATE INCREASE continued

Environmental Charge: In October 2003, TVA added a charge to its wholesale rates to recover its cost to add equipment to its generation facilities to meet government environmental standards. The charge is a fixed amount and is $0.00186 per kWh under the new Demand and Energy rate structure. The charge was to expire September 2013 but was extended indefinitely.

Retail Adder: The System's margin is provided by a Retail Adder. The System's adder has not been changed since July 2010.

The System implemented a customer service charge increase effective October 2013.

NOTE 16 – MUNINET

MuniNet Fiber Agency ("MuniNet") was formed to undertake the financing, acquisition, construction, management, operation, utilization and ownership of fiber network projects and any and all facilities, including all equipment, structures, machinery, and tangible and intangible property, real or personal, useful for such projects, either within or without the Commonwealth of Kentucky. Projects are approved by the MuniNet Board on a project-specific basis. After a project is approved, MuniNet and the individual MuniNet members who desire to participate in the project enter into a Project Participation Agreement which sets forth the terms and conditions of the project's development and operation and establishes each participant's rights and obligations with respect to the project.

MuniNet Project 2 ("Project 2") consists of the development of a fiber optic cable system and a contractual arrangement for a connection to an Internet Access Provider (IAP) located in Nashville, Tennessee that will provide each project participant with high speed access to the internet. The estimated cost of Project 2 is $3,173,049.

On April 30, 2013, the Board signed a Resolution approving the Project 2 Participation Agreement among the Board, MuniNet and the other Project 2 participants. Hopkinsville Electric System is one of seven (7) Kentucky public utility companies who are participants in Project 2. Each participant in Project 2 ("Participant") has a one-seventh (1/7) interest in the project ("Project Share").

MuniNet obtained a loan from the Kentucky Infrastructure Authority in the amount of $3,200,000 to finance the development, construction and equipping of Project 2.

The Superintendent/General Manager of each participant appoints one representative to the Project Management Committee and one alternate, either or both of whom, may be employees of the Participant The Superintendent/General Manager of the participant may appoint himself as the representative or alternate to the Project Management Committee.

NOTE 16 – MUNINET

Costs and expenses associated with financing, development, equipping, maintenance and operation of Project 2, including debt service, will be paid from the revenue generated from the project. In the event the revenue generated from Project 2 is insufficient to pay the full amount of the costs and expenses associated with the project as they come due, each participant will be responsible for its Project Share of the deficit.

Hopkinsville Electric System has provided MuniNet with an indefeasible right of use (IRU) for fibers on the System's existing fiber system. MuniNet has agreed to pay Hopkinsville Electric System for its provision of an IRU in such fibers in the amount of $270,809 amortized over 20 years with no interest. During fiscal year ending June 30, 2015, $135,404 was received, and the additional $135,405 is not deemed receivable within the twelve month period. Amortization expense for the current fiscal year was $6,770.

MuniNet bills each participant monthly indicating the amount payable for its project share of payment obligations due under the Project Participation Agreement. In addition, MuniNet bills each participant administrative and operating costs which will be expensed. The Board paid $32,014 for administrative and operating costs during fiscal year June 30, 2015.

The following are costs incurred for the initial investment in MuniNet and Project 2 costs:

	2015	2014
Initial investment	$ 5,000	$ 5,000
Project 2 Investment in Muninet		
Beginning balance July 1	110,394	70,423
Program revenue		
Costs incurred	32,014	34,971
Less MuniNet reimbursements	-	-
	142,408	105,394
Ending balance June 30	$ 147,408	$ 110,394

NOTE 17 – UPCOMING PRONOUNCEMENTS

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The System is currently evaluating the impact this standard will have on the financial statements when adopted during the System's 2016 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the System will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The board is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB 75 is effective one year later.

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Effective July 1, 2014 the System was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). GASB 68 replaced the requirements of GASB 27, Accounting for Pensions by State and Local Governmental Employers and GASB 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long term obligations for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the System, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. Refer to the Defined Benefit Plan section of Note 10 for further details.

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES, continued

As a result of implementing this statement, the following line items have been added to the statement of Net Position:

Item	As of June 30, 2015	As of June 30, 2014
Deferred outflows - pension plan	$ 528,249	552,022
Deferred inflows - pension plan	368,800	461,000
Net pension liability	4,225,200	4,815,022

As this statement is applied retroactively, the financial statement for the year ended June 30, 2014 has been restated to apply the changes noted associated with the net pension asset.

Net Position - June 30, 2014, as originally reported	$ 22,362,619
GASB 68 adjustment to record net pension asset as of June 30, 2014	(4,263,000)
Net Position - June 30, 2014, as restated	$ 18,099,619
Net Income - June 30, 2015, as originally reported	$ 1,357,419
GASB 68 adjustment to record net pension expense for the year ended June 30, 2015 (included in administrative and general expense)	197,249
Net Income - June 30, 2015, as restated	$ 1,554,668

ADDITIONAL INFORMATION

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
County Employees Retirement System

	Year Ended June 30, 2015
Utility's proportion of the net pension liability (asset)	0.12738%
Utility's proportion share of the net pension liability (asset)	$ 4,225,200
State's proportionate share of the net pension liability (asset) associated with HES	-
Total	$ 4,225,200
Utility's covered-employee payroll	$ 2,989,520
Utility's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	70.75%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
County Employees Retirement System

	Year Ended June 30, 2015
Contractually required contribution	$ 528,249
Contributions in relation to the contractually required contribution	528,249
Contribution deficiency (excess)	$ -
Utility's covered employee payroll	$ 2,989,520
Contributions as a percentage of covered employee payroll	17.67%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

SUPPLEMENTARY INFORMATION

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMBINED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	ELECTRIC	TELECOM	TOTAL
OPERATING REVENUES	$ 36,368,335	$ 3,303,237	$ 39,671,572
OPERATING EXPENSES			
Cost of power	27,757,025	-	27,757,025
Cost of sales - telecom	-	193,675	193,675
Distribution - operation	1,392,592	818,563	2,211,155
- maintenance	1,105,195	27,267	1,132,462
Transmission - maintenance	5,555	-	5,555
Customer accounts	715,050	57,769	772,819
Sales	92,367	49,641	142,008
Administrative and general	1,475,329	527,782	2,003,111
Depreciation and amortization	1,080,333	1,035,206	2,115,539
Taxes	1,294,635	46,425	1,341,060
Total operating expenses	34,918,081	2,756,328	37,674,409
Net operating revenues	1,450,254	546,909	1,997,163
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(298,163)	(116,167)	(414,330)
Other interest	(17,347)	-	(17,347)
Amortization of debt expense	(11,581)	(3,693)	(15,274)
Interest income	3,152	-	3,152
Other income (expenses)	1,304	-	1,304
Total nonoperating revenues (expenses)	(322,635)	(119,860)	(442,495)
CHANGE IN NET POSITION	1,127,619	427,049	1,554,668
NET POSITION, BEGINNING OF YEAR	23,152,687	(790,068)	22,362,619
Implementation of GASB 68 (Note 18)	(3,264,823)	(998,177)	(4,263,000)
NET POSITION, BEGINNING OF YEAR, restated	19,887,864	(1,788,245)	18,099,619
NET POSITION, END OF YEAR	$ 21,015,483	$ (1,361,196)	$ 19,654,287

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - ELECTRIC
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	ELECTRIC 2015	ELECTRIC 2014	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 36,368,335	$ 37,062,945	$ (694,610)
OPERATING EXPENSES			
Cost of power	27,757,025	28,445,310	688,285
Distribution - operation	1,392,592	1,450,694	58,102
- maintenance	1,105,195	1,054,499	(50,696)
Transmission - maintenance	5,555	805	(4,750)
Customer accounts	715,050	739,979	24,929
Sales	92,367	94,840	2,473
Administrative and general	1,475,329	1,766,837	291,508
Depreciation	1,080,333	1,254,162	173,829
Taxes	1,294,635	1,344,639	50,004
Total operating expenses	34,918,081	36,151,765	1,233,684
Net operating revenues	1,450,254	911,180	539,074
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(298,163)	(98,740)	(199,423)
Other interest	(17,347)	(19,879)	2,532
Amortization of debt expense	(11,581)	(8,376)	(3,205)
Interest income	3,152	18,280	(15,128)
Other revenues (expenses)	1,304	13,106	(11,802)
Total nonoperating revenues (expenses)	(322,635)	(95,609)	(227,026)
CHANGE IN NET POSITION	$ 1,127,619	$ 815,571	$ 312,048

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES - TELECOMMUNICATIONS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	TELECOM 2015	TELECOM 2014	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES	$ 3,303,237	$ 3,182,589	$ 120,648
OPERATING EXPENSES			
Cost of sales - telecom	193,675	228,639	34,964
Distribution - operation	818,563	701,021	(117,542)
- maintenance	27,267	38,283	11,016
Customer accounts	57,769	61,058	3,289
Sales	49,641	37,475	(12,166)
Administrative and general	527,782	492,672	(35,110)
Depreciation and amortization	1,035,206	929,471	(105,735)
Taxes	46,425	40,012	(6,413)
Total operating expenses	2,756,328	2,528,631	(227,697)
Net operating revenues	546,909	653,958	(107,049)
NONOPERATING REVENUES (EXPENSES)			
Interest on long-term debt	(116,167)	(209,120)	92,953
Amortization of debt expense	(3,693)	(3,693)	-
Interest income	-	24	(24)
Total nonoperating revenues (expenses)	(119,860)	(212,789)	92,929
CHANGE IN NET POSITION	$ 427,049	$ 441,169	$ (14,119)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - ELECTRIC

	For the Year Ended June 30, 2015		For the Year Ended June 30, 2014		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution					
Supervision & engineering	$ 111,949	0.31 %	$ 107,438	0.29 %	$ 4,511
Station expense	126,206	0.35	149,133	0.40	(22,927)
Overhead lines expense	232,140	0.64	267,027	0.72	(34,887)
Underground line expense	-	0.00	770	0.00	(770)
Street light & signal system expense	58,328	0.16	37,375	0.10	20,953
Meter expense	45,876	0.13	75,198	0.20	(29,322)
Customer installation expense	29,910	0.08	26,464	0.07	3,446
Miscellaneous distribution expense	26,381	0.07	24,293	0.07	2,088
Rents	761,802	2.09	762,997	2.06	(1,195)
Total distribution	$ 1,392,592	3.83 %	$ 1,450,695	3.91 %	$ (58,103)
Maintenance expense					
Distribution:					
Supervision & engineering	$ 20,854	0.06 %	$ 20,293	0.05 %	$ 561
Substations	7,169	0.02	14,761	0.04	(7,592)
Overhead lines	991,537	2.73	949,554	2.56	41,983
Underground services	11,574	0.03	4,811	0.01	6,763
Transformers	50,235	0.14	37,732	0.10	12,503
Street light & signal system	23,826	0.07	27,348	0.07	(3,522)
Meters	-	0.00	-	0.00	-
Total distribution maintenance	$ 1,105,195	3.05 %	$ 1,054,499	2.83 %	$ 50,696
Transmission:					
Maintenance of overhead lines	$ 5,555	0.00 %	$ 805	0.00 %	$ 4,750
Total transmission maintenance	$ 5,555	0.00 %	$ 805	0.00 %	$ 4,750
Customer accounts					
Supervision	$ 67	0.00 %	$ 67	0.00 %	$ -
Meter reading	63,089	0.17	48,674	0.13	14,415
Customer records & collection expense	448,058	1.23	465,845	1.26	(17,787)
Uncollectible accounts	113,116	0.31	120,883	0.33	(7,767)
Miscellaneous customer accounting	3,481	0.01	3,422	0.01	59
Customer assistance expense	45,252	0.12	49,706	0.13	(4,454)
Information & instructional advertising	41,987	0.12	51,382	0.14	(9,395)
Total customer accounts	$ 715,050	1.96 %	$ 739,979	2.00 %	$ (24,929)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - ELECTRIC, continued

	For the Year Ended June 30, 2015		For the Year Ended June 30, 2014		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Sales expense					
Demonstrating and selling expense	$ 73,330	0.20 %	$ 71,363	0.19 %	$ 1,967
Advertising expense	18,167	0.05	22,622	0.06	(4,455)
Miscellaneous	870	0.00	855	0.00	15
Total sales	$ 92,367	0.25 %	$ 94,840	0.25 %	$ (2,473)
Administrative and general					
Administrative & office salaries	$ 362,693	1.00 %	$ 381,176	1.03 %	$ (18,483)
Office supplies & expense	151,558	0.42	168,630	0.45	(17,072)
Outside services employed	100,743	0.28	63,769	0.17	36,974
Property insurance	122,703	0.34	127,811	0.34	(5,108)
Injuries & damages	52,883	0.15	49,510	0.13	3,373
Employees pension & other benefits	581,641	1.60	801,937	2.16	(220,296)
Duplicate charges (credit)	(126,972)	(0.35)	(122,640)	(0.33)	(4,332)
Miscellaneous general expense	60,944	0.17	58,766	0.16	2,178
Maintenance	169,136	0.47	237,878	0.64	(68,742)
Total administrative and general	$ 1,475,329	4.08 %	$ 1,766,837	4.75 %	$ (291,508)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - TELECOMMUNICATIONS

	For the Year Ended June 30, 2015		For the Year Ended June 30, 2014		Increase
	Amount	Percent	Amount	Percent	(Decrease)
Distribution					
Supervision & engineering	$ 98,072	2.97 %	$ 95,954	3.01 %	$ 2,117
Hub expenses	29,356	0.89	39,046	1.23	(9,690)
Overhead cable expense	396,086	11.99	314,255	9.87	81,831
Meter expense	319	0.01	196	0.01	124
Customer installation expense	195,001	5.90	155,353	4.88	39,648
Miscellaneous distribution expense	2,622	0.08	7,024	0.22	(4,402)
Rents	97,107	2.94	89,193	2.80	7,914
Total distribution	$ 818,563	24.78 %	$ 701,021	22.02 %	$ 117,542
Maintenance expense					
Distribution:					
Supervision & engineering	$ 10,019	0.30 %	$ 13,174	0.41 %	$ (3,155)
Hub expenses	10,030	0.30	15,650	0.49	(5,620)
General maintenance	7,218	0.22	9,459	0.30	(2,241)
Maintenance underground services	-	0.00	-	0.00	-
Total distribution maintenance	$ 27,267	0.82 %	$ 38,283	1.20 %	$ (11,016)
Customer accounts					
Billing expense	$ 7,909	0.24 %	$ 14,489	0.46 %	$ (6,580)
Customer records & collection expense	11,373	0.34	16,483	0.52	(5,110)
Uncollectible accounts	22,344	0.68	20,490	0.64	1,854
Customer assistance expense	16,143	0.49	9,596	0.30	6,547
Total customer accounts	$ 57,769	1.75 %	$ 61,058	1.92 %	$ (3,289)

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
COMPARATIVE ANALYSIS OF OPERATING EXPENSES - TELECOMMUNICATIONS, continued

	For the Year Ended June 30, 2015 Amount	Percent	For the Year Ended June 30, 2014 Amount	Percent	Increase (Decrease)
Sales expense					
Demonstrating and selling expense	$ 26,859	0.81 %	$ 16,822	0.53 %	$ 10,037
Advertising expense	22,782	0.69	20,653	0.65	2,129
Total sales	$ 49,641	1.50 %	$ 37,475	1.18 %	$ 12,166
Administrative and general					
Administrative & office salaries	$ 100,659	3.05 %	$ 66,908	2.10 %	$ 33,751
Office supplies & expense	36,983	1.12	33,609	1.06	3,374
Meeting expenses	1,679	0.05	13,318	0.42	(11,639)
Outside services employed	19,706	0.60	19,047	0.60	659
Property insurance	23,503	0.71	20,595	0.65	2,908
Injuries & damages	16,255	0.49	12,780	0.40	3,475
Employees pension & other benefits	225,533	6.83	230,971	7.26	(5,438)
General advertising	39	0.00	30	0.00	9
Miscellaneous general expense	9,769	0.30	7,084	0.22	2,685
Maintenance	93,656	2.84	88,330	2.78	5,326
Total administrative and general	$ 527,782	15.99 %	$ 492,672	15.49 %	$ 35,110

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

To the Board of the
Hopkinsville Electric System of the
City of Hopkinsville, Kentucky
Hopkinsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hopkinsville Electric System of the City of Hopkinsville, Kentucky, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's basic financial statements and have issued our report thereon dated October 23, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiency (item 2015-01).

American Institute of Certified Public Accountants ~ Kentucky Society of Certified Public Accountants

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hopkinsville Electric System of the City of Hopkinsville, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Hopkinsville Electric System of the City of Hopkinsville, Kentucky's Response to Findings

The Hopkinsville Electric System of the City of Hopkinsville, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Hopkinsville Electric System of the City of Hopkinsville, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kem, Duguid & Associates, P.S.C.

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Certified Public Accountants
Hopkinsville, Kentucky

October 23, 2015

HOPKINSVILLE ELECTRIC SYSTEM
OF THE
CITY OF HOPKINSVILLE, KENTUCKY
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

2015-01 Internal Controls

Condition: The System does not have control over the preparation of the financial statements footnote disclosures in order to prevent or detect a misstatement in the disclosures. The independent auditor cannot be a compensating control for the client.

Criteria: Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements and related footnote disclosures.

Effect: Lack of accountability and possible misstatement of financial statement footnote disclosures.

Recommendation: The System should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements footnote disclosures, and take responsibility for these disclosures.

Response: It is not feasible for the System to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain knowledge related to Financial Accounting Standards Board (FASB) and Government Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the System.