

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
PADUCAH, KENTUCKY**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1-3
Required Supplemental Information: Management’s Discussion and Analysis	4-9
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13-25
Required Supplementary Information:	
Schedule of Employer’s Proportionate Share of the Net Pension Liability – County Employee’s Retirement System (CERS)	26
Schedule of Employer Contributions – County Employee’s Retirement System (CERS)	27
Supplemental Information:	
Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual	28
Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	29-30
Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133	31-32
Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs	34
Summary Schedule of Prior Audit Findings	35

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Independent Auditor's Report

Board of Directors
Paducah McCracken Joint Sewer Agency
Paducah, Kentucky

We have audited the accompanying financial statements of the business-type activities of Paducah McCracken Joint Sewer Agency as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency'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.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Paducah McCracken Joint Sewer Agency, as of June 30, 2015, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Paducah McCracken Joint Sewer Agency as of June 30, 2014, were audited by other auditors whose report dated September 18, 2014, expressed an unmodified opinion on those statements.

Change in Accounting Principle

As discussed in Note P to the financial statements, in fiscal year 2015 the Agency adopted new accounting guidance, GASB Statement No. 68, *Accounting & Financial Reporting for Pensions*. 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 management's discussion and analysis on pages 4 through 9 and schedules of employer's proportionate share of the net pension liability and employer contributions information on pages 26 and 27 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 Paducah McCracken Joint Sewer Agency's basic financial statements. The budgetary comparison information on page 28 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

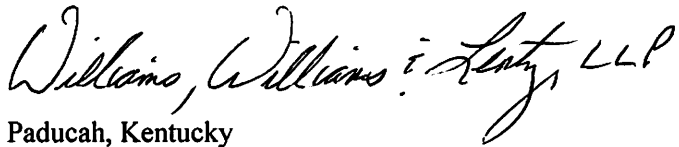
The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Prior period adjustments

As part of our audit of the 2015 financial statements, we also audited adjustments described in Note P that were applied to restate the 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the Agency other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 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 Paducah McCracken Joint Sewer Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paducah McCracken County Joint Sewer Agency's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Williams, Williams & Lentz, LLP".

Paducah, Kentucky
October 23, 2015

REQUIRED SUPPLEMENTAL INFORMATION



As management of the Paducah McCracken Joint Sewer Agency **JSA**, we offer readers of the JSA's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015.

Financial Highlights

- Capital assets increased \$3.5 million (5.6%) over the prior fiscal year
- Total assets increased \$1.5 million (1.8%) as a result of FY 2015 operations
- Capital contributions of \$612 thousand were received during FY 2015
- Debt service coverage ratios remain above the level of compliance

Required Financial Statements

Statement of Net Position – The purpose of the Statement of Net Position is to report all of the assets held and liabilities owed by the JSA. The statement shows the JSA's level of investment in resources (assets) and the obligations to creditors (liabilities). The difference between the assets and liabilities is labeled net position and is similar to owners' equity presented by a commercial enterprise. The purpose of the JSA is not to accumulate net assets, but rather to reinvest in the infrastructure and to build sufficient reserves in the event of an emergency. In general, increases in net position indicate that the financial position of the JSA is improving over time.

Statement of Revenues, Expenses and Changes in Net Position – The purpose of this statement is to identify the revenues and expenses generated and incurred by the JSA. The focus of this statement is to help the user identify the operating results of the JSA during the fiscal year. The difference between revenues and expenses is called the change in net position and is similar to net income reported by a commercial entity.

Statement of Cash Flows – The purpose of the Statement of Cash Flows is to analyze the cash receipts and disbursements made by the JSA during the fiscal year. The statement reports cash inflows and outflows resulting from three main business activities: operating, financing and investing. The statement addresses the sources and uses of cash, and the change in cash balances from the previous reporting period.

Financial Information

EXHIBIT 1: Condensed Statements of Net Position (in thousands)

	FYE 6/30/15	FYE 6/30/14	Dollar Change	Percent Change
Assets				
Current assets	\$ 13,346	\$ 14,773	\$(1,427)	-9.7%
Capital assets	66,276	62,741	3,535	5.6%
Restricted funds	1,260	1,881	(621)	-33.0%
Deferred charges & other	627	635	8	-1.3%
Total assets	<u>81,509</u>	<u>80,030</u>	<u>1,479</u>	1.8%
Deferred Outflows of Resources	<u>260</u>	<u>0</u>	<u>260</u>	0.0%
Liabilities & net position				
Current liabilities	2,137	1,758	379	21.6%
Noncurrent liabilities	<u>23,874</u>	<u>21,125</u>	<u>2,749</u>	13.0%
Total liabilities	<u>26,011</u>	<u>22,883</u>	<u>3,128</u>	13.7%
Deferred Inflows of Resources	<u>234</u>	<u>0</u>	<u>234</u>	0.0%
Invested in capital assets, net	44,265	41,199	3,066	7.4%
Restricted	1,260	1,881	(621)	-33.0%
Unrestricted	<u>9,999</u>	<u>14,067</u>	<u>(4,068)</u>	-28.9%
Total net position	<u>\$ 55,524</u>	<u>\$ 57,147</u>	<u>\$ (1,623)</u>	-2.8%

Capital Assets and Long-Term Debt Activity

At the close of FY 2015, the JSA had \$66 million in undepreciated cost of total capital assets. Capital assets increased due to the purchase of capital assets, the completion of capital projects, higher construction in progress costs over the prior fiscal year and the contribution of assets to the JSA by private developers.

Fiscal year 2014 brought construction of the Wallace Park Sewer Separation Project, which has continued throughout FY 2015. This project consists of two phases – Phase I being a stormwater detention structure and Phase II being a sanitary sewer separation project. JSA has expended \$4.5 million on this project to date and expects to spend another \$900 thousand before bringing it to a close.

The JSA continues to rebuild the aging sewer infrastructure as well as extend sewers to previously unsewered and undeveloped areas of the city and county. The JSA is committed to capital investments in infrastructure assets to protect the integrity of and enhance the existing sewer system.

Total Liabilities and Net Position

Total liabilities increased during FY 2015 by \$3.1 million or 13.7% over FY 2014. Because the JSA participates in Kentucky Retirement Systems KRS (JSA participates in the County Employees Retirement System CERS branch of KRS), the Agency became subject to new reporting requirements under the General Accounting Standards Board GASB beginning in FY 2015. JSA recorded \$2.1 million as its proportionate share of the CERS net pension liability under these new standards. The Agency also recorded \$2.2 million in draws against a Kentucky Infrastructure Authority KIA loan for the Wallace Park Project, as well as refinanced bonds and was able to pay off a separate KIA loan early.

The JSA's total net position decreased by \$1.6 million during FY 2015. This was due to the \$2.1 million net pension liability newly reported in FY 2015.

EXHIBIT 2: Condensed Statements of Revenues, Expenses and Changes in Net Position
(in thousands)

	<u>FYE</u> <u>6/30/15</u>	<u>FYE</u> <u>6/30/14</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Revenues				
Operating revenues	\$ 6,921	\$ 6,912	\$ 9	0.1%
Non-operating revenues	<u>302</u>	<u>364</u>	<u>(62)</u>	-17.0%
Total revenues	<u>7,223</u>	<u>7,276</u>	<u>(53)</u>	-0.7%
Expenses				
Depreciation	2,558	2,536	22	0.9%
Operating expenses	4,251	4,499	(248)	-5.5%
Non-operating expenses	<u>486</u>	<u>485</u>	<u>1</u>	0.2%
Total expenses	<u>7,295</u>	<u>7,520</u>	<u>(225)</u>	-3.0%
Contributions	<u>612</u>	<u>43</u>	<u>569</u>	1323.3%
Change in net position	540	(201)	741	368.7%
Beginning net position, restated	<u>54,984</u>	<u>57,348</u>	<u>(2,364)</u>	-4.1%
Ending net position	\$ 55,524	\$ 57,147	\$ (1,623)	-2.8%

Budget

The JSA conducts its activities in accordance with a budget for operating revenues, operating expenses, and capital purchases. The JSA is required to adopt a budget annually. Through monitoring and review by the JSA Board, the Agency continuously meets its responsibility for sound financial management.

Operating revenues for FY 2015 finished \$9 thousand above the amount for the prior year. Sewer charges comprise the bulk of operating revenues and are billed based on customer water consumption. These charges came in \$104 thousand less than budget for FY 2015. Operating expenses came in under budget for the fiscal year finishing \$288 thousand below estimate.

JSA received \$612 thousand in capital contributions during the fiscal year. These contributions came in the forms of grant revenue of \$321 thousand, developer cash contributions of \$94 thousand and developer non-cash contributions of \$197 thousand.

Beginning net position is restated for two purposes: 1) the JSA was required to record a liability for its \$2.1 million proportionate share of the CERS net pension liability, and 2) the JSA had an unrecorded liability for a \$566 thousand project verbally agreed upon by JSA and the City of Paducah to be given to the City upon completion. The project was not completed at June 30, 2015.

Results of Operations

Total revenues of \$7.2 million for FY 2015, showed a decrease of \$53 thousand or -0.7% from FY 2014. Total expenses also decreased \$225 thousand or -0.3% from FY 2014. The largest contributing factors to the decrease in total expenses were the decrease in pension expense due to a change in reporting requirements and the expensing of \$158 thousand in costs during FY 2014 on a project to be given to the City of Paducah.

EXHIBIT 3: Detail of Operating Expenses (Excluding Depreciation)

Operating Expenses (in thousands)	FYE 6/30/15	FYE 6/30/14	Dollar Change	Percent Change
Salaries, wages and benefits	\$ 2,134	\$ 2,248	\$ (114)	-5.1%
Chemicals, testing & solids disposal	329	333	(4)	-1.2%
Utilities	723	797	(74)	-9.3%
Material, supplies and repairs	479	365	114	31.2%
Fleet expense	91	106	(15)	-14.2%
Professional fees	109	113	(4)	-3.5%
Billing, collection and bad debts	171	162	9	5.6%
All other	215	375	(160)	-42.7%
Total	\$ 4,251	\$ 4,499	\$ (248)	-5.5%

Salaries and Benefits

Salaries, wages and benefits comprise the bulk of operating expenses. These expenses decreased significantly from FY 2014 with approximately \$18 thousand of this change being in health insurance expense. This was simply due to employees changing their benefits, and not utilizing the wellness program. The JSA recorded a \$93 thousand decrease in pension expense during the year due to the new pension reporting requirements mandated by GASB. This decrease is due to the change in net pension liability from FY 2014 to FY 2015, the amortization of deferred inflows and the reclassification of contributions made after the measurement date. Employees received annual wage increases during FY 2015 and 2014.

Other Operating Expenses

Chemicals, testing and solids disposal showed a \$4 thousand decrease from the prior year. Chemical usage amounts and costs vary from year to year based on a variety of factors, including economic conditions and pricing, as well as certain operational parameters which vary due to odor control requirements, treatment plant flows, and the maintenance of the bacterial inventory at the wastewater treatment plants. Solids disposal costs vary primarily based on the treated flow amounts, the efficiency of the wastewater treatment plant digesters and the ability for the City of Paducah's composting facility to efficiently handle the Paducah wastewater treatment plant's fully digested sludge inventory. In times of low composting supply material (i.e. branches, leaves, sticks, etc.) or composting facility equipment breakdown, the JSA is forced to landfill sludge at higher costs.

The largest component of utilities expense is electricity costs. The budget for electricity was \$607 thousand with actual costs totaling \$630 thousand. Electricity costs vary from year to year based on flows received and pumped. However, electricity costs started increasing significantly during FY 2014 due to JSA's primary electrical provider, Paducah Power, experiencing a high power cost adjustment factor due to issues associated with their power supplier, Prairie State Energy Campus.

Materials, supplies and repairs are ordinary and necessary costs incurred to keep the sewer utility process, as well as JSA buildings and grounds, in good working order. The FY 2015 budget for materials, supplies and repairs was \$439 thousand resulting in a negative variance of \$40 thousand. This variance was due to repairs of collection system camera inspection equipment as well as some buildings repairs and maintenance.

The largest component of the material, supplies and repairs category is repairs, which include collection system point repairs, pump rebuilds, and plant equipment repairs. Contract labor is sometimes used for these repairs and is charged to this category, while internal labor for repair work is expensed to salaries and wages. Expenses are categorized using the three main components of a sewer system: pipes, pumps and motors. Repairs were made as follows:

EXHIBIT 4: Repairs by Department (in thousands)

<u>Department</u>	<u>FYE</u> <u>2015</u>	<u>FYE</u> <u>2014</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Collection System (pipes)	\$ 169	\$ 66	\$ 103	156.1%
Lift Stations (pipes & pumps)	55	71	(16)	-22.5%
Treatment Plants (pipes, pumps & motors)	42	44	(2)	-4.5%
Total	\$ 266	\$ 181	\$ 85	47.0%

Collection system expenses saw an increase over FY 2014, partially due to a sewer system cleaning contract that took place during FY 2015 for \$65 thousand. The year also brought more in-house cured-in-place pipe lining as well as more dig and repair jobs.

Fleet expense declined \$15 thousand, or 14.2%, over the prior fiscal year. The JSA maintains a vehicle replacement program to cull the aging fleet and attempt to minimize extensive repair costs. Fleet expense finished \$31 thousand less than budget for the current fiscal year.

FY 2015 professional fees were \$4 thousand less than in FY 2014. This account consists of legal, accounting and other engineering and software contractual services. The budget for professional fees was \$130 thousand for FY 2015.

Paducah Water provides billing and collection services for the JSA. Bad debt write offs finished slightly higher than expected at 0.73% of sewer charges.

All other expenses totaled \$215 thousand for FY 2015 and included costs for insurance, office expense, safety, training, public education, board of directors' expense and miscellaneous expense. The budget for all other expenses was \$206 thousand. Many expenses included in this category finished at or near budget with insurance and office expense coming in \$3 thousand over budget and safety coming in \$4 thousand less than budget. Miscellaneous expense finished \$8 thousand over budget. Miscellaneous expense can vary widely due to insurance claims, funding fees and legal advertising.

Debt Service Coverage

Debt service coverage ratio is an indicator of the JSA's ability to meet its debt obligations. The JSA Board strives to maintain a minimum debt service coverage ratio of 1.3 times the required debt service payments. For purposes of this calculation, gross revenues include investment income, grant revenues and connection fees, and expenses exclude the deduction for depreciation. The JSA exceeded the minimum level of net revenue equal to 1.3 times the required debt service payments for FY 2015 while also extinguishing one loan prior to its maturity date of 2018. The JSA's debt service coverage ratio was 1.47 in 2015 and 1.95 in 2014.

Relevant Current Economic Factors and Other Significant Matters

Regional economic trends that affect the financial condition of the JSA have remained sluggish throughout this fiscal year. New home construction was slow which is representative of the current U.S. market.

Investment returns have continued to remain flat. These returns will fluctuate with adjustments in interest rates, due to the nature of JSA's investments.

The Paducah McCracken Joint Sewer Agency entered into a Consent Judgment with the Kentucky Environmental and Public Protection Cabinet in September 2007 to bring combined and sanitary sewer overflows into compliance with Federal and State guidelines. The Agency will be bound by this Judgment for many years to come and will incur costs to bring the system into compliance that can only be determined as solutions to the issues are proposed and approved by the Cabinet as outlined in the Consent Judgment. The total cost of complying with this Consent Judgment has not been determined, but will be significant. As a result, future rate increases will be necessary to achieve compliance. JSA is currently undergoing an analysis

of rates and fees, with planned changes proposed to be placed in effect during FY 2016. The JSA strives to utilize sound business principals while meeting the needs of the community and maintaining environmental compliance with Federal, State and local regulations.

The JSA continues to pursue alternative means of funding in the form of grants and low-interest loans to aid in the funding of the Agency's capital expenditures. The JSA has been successful in securing \$10.2 million in grants from the KIA and the United States Department of Agriculture Rural Development since FY 2005. The Agency was awarded and expended a Delta Regional Authority grant totaling \$100 thousand during FY 2013 and an Economic Development Authority Grant totaling \$315 thousand in FY 2015. These funds have been expended on projects relating to expansion of the collection system, maximization of flow at Paducah's wastewater treatment plant, the separation of flow from JSA's combined sewer system, various compliance related planning documents, and the Massac Creek Interceptor Project, thus reducing the burden of these projects on JSA ratepayers.

Requests for Additional Information

This report is intended to provide readers with a general overview of the JSA's finances and to show the JSA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the JSA at 621 Northview Street, Paducah, KY 42001 or (270) 575-0056.

BASIC FINANCIAL STATEMENTS

PADUCAH MCCRACKEN JOINT SEWER AGENCY
STATEMENTS OF NET POSITION
JUNE 30

ASSETS

Current Assets:	2015	2014
Cash and cash equivalents	\$ 6,055,956	\$ 5,234,911
Investments and accrued interest	5,778,338	8,066,700
Customer accounts receivable	501,747	429,834
Grants and other receivables	135,182	169,315
Accrued unbilled revenue	562,000	554,000
Inventories and prepaid expenses	313,192	318,321
	<hr/>	<hr/>
Total current assets	13,346,415	14,773,081
	<hr/>	<hr/>
Noncurrent Assets:		
Utility plant and capital assets, net	66,276,031	62,741,032
Restricted assets and investments	1,260,054	1,880,538
Bond discount - net	59,320	55,137
Other noncurrent assets	567,352	580,156
	<hr/>	<hr/>
Total noncurrent assets	68,162,757	65,256,863
	<hr/>	<hr/>
TOTAL ASSETS	81,509,172	80,029,944

DEFERRED OUTFLOWS OF RESOURCES

Contributions subsequent to the measurement date	260,355	-
	<hr/>	<hr/>

LIABILITIES

Current Liabilities:		
Notes and bonds payable	798,557	983,057
Accounts payable	1,104,563	488,508
Salaries and benefits payable	87,463	86,295
Other current liabilities	146,686	200,775
	<hr/>	<hr/>
Total current liabilities	2,137,269	1,758,635
	<hr/>	<hr/>
Noncurrent Liabilities:		
Notes and bonds payable	21,212,348	20,559,124
Net pension liability	2,096,632	-
Other noncurrent liabilities	565,545	565,545
	<hr/>	<hr/>
Total noncurrent liabilities	23,874,525	21,124,669
	<hr/>	<hr/>
TOTAL LIABILITIES	26,011,794	22,883,304

DEFERRED INFLOWS OF RESOURCES

Difference between projected and actual earnings	234,035	-
	<hr/>	<hr/>

NET POSITION

Invested in capital assets, net of related debt	44,265,126	41,198,849
Restricted for debt service	1,260,054	1,880,538
Unrestricted - net assets	9,998,518	14,067,253
	<hr/>	<hr/>
TOTAL NET POSITION	\$55,523,698	\$57,146,640

The notes to financial statements are an integral part of this statement.

PADUCAH MCCRACKEN JOINT SEWER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Charges for services	<u>\$ 6,921,452</u>	<u>\$ 6,912,425</u>
Operating Expenses:		
Salaries, wages and benefits	2,134,477	2,247,859
Chemicals, testing, and solids disposal	328,761	333,090
Utilities	722,744	796,724
Materials, supplies, and repairs	478,986	365,428
Fleet expense	91,049	106,181
Liability insurance	118,100	113,656
Training, safety, and dues	34,109	30,338
Professional fees	109,065	112,968
Office expense	16,353	14,424
Public education	3,190	750
Billing and collections	122,076	102,047
Bad debts	48,868	59,571
Board of directors expense	16,800	16,800
Miscellaneous	26,860	199,623
Depreciation	<u>2,557,652</u>	<u>2,536,013</u>
Total operating expenses	<u>6,809,090</u>	<u>7,035,472</u>
Operating income (loss)	<u>112,362</u>	<u>(123,047)</u>
Non-operating Revenues (Expenses):		
Investment revenue	33,831	35,785
Interest expense	(410,705)	(445,966)
Amortization	(6,177)	(5,476)
Gain (loss) on sale of assets	11,446	(34,080)
Loss on bond refinancing	(52,424)	-
Tap-on and assessment fees	256,193	310,008
Other, net	<u>(16,336)</u>	<u>17,976</u>
Total non-operating revenues (expenses), net	<u>(184,172)</u>	<u>(121,753)</u>
Change in net position before capital contributions	<u>(71,810)</u>	<u>(244,800)</u>
Capital Contributions:		
Grant revenue	320,868	3,544
Contributions from developers	<u>290,856</u>	<u>39,875</u>
Total capital contributions	<u>611,724</u>	<u>43,419</u>
Change in net position	539,914	(201,381)
Net position, beginning	57,146,640	57,755,799
Adjustment to net position, see note P	<u>(2,162,856)</u>	<u>(407,778)</u>
Net position, beginning, as restated	<u>54,983,784</u>	<u>57,348,021</u>
NET POSITION, ENDING	<u><u>\$55,523,698</u></u>	<u><u>\$57,146,640</u></u>

The notes to financial statements are an integral part of this statement.

PADUCAH MCCRACKEN JOINT SEWER AGENCY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2015	2014
Cash Flows from Operating Activities:		
Collections from customers	\$ 6,796,125	\$ 6,857,687
Cash paid to suppliers	(1,927,091)	(2,648,576)
Cash paid to employees	(2,223,815)	(2,263,884)
	<hr/>	<hr/>
Net cash provided by operating activities	2,645,219	1,945,227
Cash Flows from Capital and Related Financing Activities:		
Grants and contributed capital	6,000	493,668
Tap-on fees and assessments	256,193	310,008
Acquisition of capital assets	(4,926,594)	(2,616,533)
Proceeds from the sale of fixed assets	19,078	-
Proceeds from debt issues	6,458,977	3,966,125
Principal payments on long-term debt	(5,830,202)	(950,250)
Interest payments on long-term debt	(589,186)	(329,985)
(Increase)/Decrease in other noncurrent assets	12,089	(578,534)
Other, net	(16,336)	17,976
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	(4,609,981)	312,475
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	4,333,306	7,037,593
Purchases of investments	(1,580,625)	(8,407,829)
Investment earnings	33,126	35,785
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	2,785,807	(1,334,451)
Net increase in cash and cash equivalents	821,045	923,251
Cash and cash equivalents, beginning of year	<hr/>	<hr/>
	5,234,911	4,311,660
CASH AND CASH EQUIVALENTS, END OF YEAR	<hr/> <hr/>	<hr/> <hr/>
	\$ 6,055,956	\$ 5,234,911
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 112,362	\$ (123,047)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	2,557,652	2,536,013
Changes in operating assets and liabilities:		
Accounts receivable	(59,946)	(44,738)
Accrued unbilled revenue	(8,000)	(10,000)
Inventory and prepaid expenses	5,129	6,348
Deferred outflows of resources	(260,355)	-
Accounts payable	130,215	(561,758)
Salaries and benefits payable	1,168	(16,025)
Other current liabilities	(817)	667
Other noncurrent liabilities	-	157,767
Net pension liability	(66,224)	-
Deferred inflows of resources	234,035	-
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<hr/> <hr/>	<hr/> <hr/>
	\$ 2,645,219	\$ 1,945,227

The notes to financial statements are an integral part of this statement.

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note A – Summary of Significant Accounting Policies:

Reporting Entity

The Paducah McCracken Joint Sewer Agency, the “Agency”, was established pursuant to Chapter 76 of the Kentucky Revised Statutes. The Agency provides wastewater services to the residents of the City of Paducah and McCracken County, Kentucky. The Agency was established by merging the City of Paducah Wastewater Enterprise Fund with three sewer districts of McCracken County. Substantially all of the assets and liabilities of the separate component entities were contributed to create the Paducah McCracken Joint Sewer Agency effective July 1, 1999.

Accounting Method

The Agency maintains its books and these financial statements are presented on the accrual basis of accounting. The financial statements are reported using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with ongoing operations. The principal operating revenues of the Agency are charges for sewer service. Operating expenses 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 nonoperating revenues and expenses.

The significant accounting policies, as summarized below, are in conformity with generally accepted accounting principles as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The Agency applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Cash and Investments

For the purpose of the Statements of Cash Flows, “cash and cash equivalents” includes unrestricted demand and savings accounts of the Agency.

Accounts Receivable and Bad Debts

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice mailing date. Customer account balances with invoices dated over 30 days old are considered delinquent. Payments of accounts receivable are allocated to the specific invoices identified on the customer’s remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

No allowance for doubtful accounts has been provided since it is believed the balance in accounts receivable is fully collectible. Overdue accounts are monitored and written off as necessary. The effect of using this method is not significantly different from results which would be obtained by using the allowance method.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note A – Summary of Significant Accounting Policies (Continued):

Accrued Unbilled Revenue

Accrued unbilled revenue represents the portion of sewer service provided that was unbilled as of the end of the year.

Inventories

Materials and supplies are carried in an inventory account at cost and are subsequently capitalized or charged to expense when consumed utilizing the first-in, first-out (FIFO) method.

Capital Assets

Capital assets are recorded at cost. Donated assets are stated at fair value on the date donated. The Agency generally does not capitalize assets with costs less than \$1,000. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded. Depreciation is provided by the straight-line method over the estimated useful lives of the various classes of assets as follows:

	<u>Years</u>
Utility plant	20-60
Vehicles	5 - 7
General plant and office equipment	3-10

Capital Contributions

Capital contributions are derived from two main sources: 1) developers, when they construct and pay for sewer lines and then donate these additions to the Agency; and 2) other governments, in the form of grants or contributions of capital assets. Developer contributions are recorded at fair value when the property is transferred to the Agency and are depreciated over their estimated useful lives using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B – Restricted Assets and Investments:

Restricted assets and investments consist of certificates of deposit and other securities, which have been set aside for the repayment of bonds and notes or for maintenance reserves as required and for ongoing capital projects. These balances are classified as restricted assets on the statement of net assets because their use is limited by applicable bond ordinances and loan agreements.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note B – Restricted Assets and Investments (Continued):

At June 30, 2015, these restricted funds were comprised of the following investments:

	<u>2015</u>	<u>2014</u>
Certificates of deposit - various financial institutions	\$ 749,000	\$1,235,000
U.S. Government money market funds	511,054	1,859
U.S. Government treasury obligations	<u>-</u>	<u>643,679</u>
TOTALS	<u>\$1,260,054</u>	<u>\$1,880,538</u>

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

Note C – Deposits and Investments With Financial Institutions:

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be returned or the Agency will not be able to recover collateral securities in the possession of an outside party. The Agency's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety. Accordingly, the Agency maintains collateral agreements with its financial institutions, whereby deposits are secured with collateral valued at market or par, whichever is lower. The Board of Directors has authorized the Executive Director to utilize depository institutions located within McCracken County, which have been evaluated by the Board and/or Executive Director and Finance Director.

During the years ended June 30, 2015 and 2014, the Agency's investments include U.S. government money market funds, short term treasury obligations, demand deposits, and certificates of deposit. The bank balance of cash and investments totaled \$13,106,397 and \$15,301,241, respectively, at June 30, 2015 and 2014, with \$0 and \$69,000, respectively, uninsured and uncollateralized.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Agency's investing activities are managed under the direction of the Executive Director and Finance Director. Investing is performed in accordance with investment policies adopted by the Board of Directors complying with State Statutes. The state statutes authorize the Agency to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investments are insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note D – Construction in Progress:

The Agency had the following projects in process at June 30:

	<u>2015</u>	<u>2014</u>
Anita Drive Pump Station Capacity Evaluation	\$ 12,085	\$ -
Blandville West Subdivision Rehabilitation	1,675	-
Cairo Road and Exit 3 Sewer Extension	-	12,298
Chickadee Lift Station Elimination Project	5,710	10,493
Cook Street Overflow Tank	89,798	43,188
Gatewood Lift Station Elimination Project	-	2,622
Homewood Overflow Tank	25,224	-
James Marine Sewer Extension	-	40,919
Kentucky Avenue Sewer Rehabilitation	44,996	-
Long Term Control Plan	969,759	816,503
Massac Creek Phase III Study	19,500	18,526
Old Highway 60 Extension	4,250	4,250
Olivet Church Road/Rebecca Lane Extension	3,350	-
Pecan Drive Property	-	2,632
Rate Study	25,569	3,763
Rehab and Manhole Contract CY '14	-	18,985
Rehab Contract CY '15	755	-
Terre Verte Sewer Extension	-	7,375
Video and Cleaning Contract #10	-	14,821
Wallace Park Sewer Separation	3,999,642	720,925
Capitalized Interest	<u>91,720</u>	<u>-</u>
TOTALS	<u>\$5,294,033</u>	<u>\$1,717,300</u>

Construction in progress related invoices of \$765,076 and \$279,236 were included in accounts payable at June 30, 2015 and 2014, respectively.

Note E – Utility Plant and Capital Assets:

Utility plant and capital assets consists of the following at June 30:

	<u>2015</u>			
	<u>Balance as of</u>			<u>Balance as of</u>
	<u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 868,102	\$ 17,955	\$ -	\$ 886,057
Construction in progress	<u>1,717,300</u>	<u>5,338,629</u>	<u>1,761,896</u>	<u>5,294,033</u>
 Total capital assets not being depreciated	 <u>2,585,402</u>	 <u>5,356,584</u>	 <u>1,761,896</u>	 <u>6,180,090</u>

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note E – Utility Plant and Capital Assets (Continued):

	2015			Balance as of June 30, 2015
	Balance as of June 30, 2014	Increases	Decreases	
Capital assets, being depreciated:				
Utility assets (pipes, pumps, plants, structures)	\$ 86,672,489	\$ 2,010,186	\$ 7,500	\$ 88,675,175
Vehicles	1,348,234	404,445	391,295	1,361,384
General plant and office furniture	<u>2,421,509</u>	<u>90,964</u>	<u>1,508</u>	<u>2,510,965</u>
Totals at historical cost	<u>90,442,232</u>	<u>2,505,595</u>	<u>400,303</u>	<u>92,547,524</u>
Less accumulated depreciation:				
Utility assets	27,392,769	2,292,097	4,107	29,680,759
General plant and office furniture	1,701,993	159,907	1,508	1,860,392
Vehicles	<u>1,191,840</u>	<u>105,648</u>	<u>387,056</u>	<u>910,432</u>
Total accumulated depreciation	<u>30,286,602</u>	<u>2,557,652</u>	<u>392,671</u>	<u>32,451,583</u>
Total capital assets, being depreciated, net	<u>60,155,630</u>	<u>(52,057)</u>	<u>7,632</u>	<u>60,095,941</u>
TOTAL SYSTEM CAPITAL ASSETS – NET	<u>\$ 62,741,032</u>	<u>\$ 5,304,527</u>	<u>\$ 1,769,528</u>	<u>\$ 66,276,031</u>
	2014			Balance as of June 30, 2014
	Balance as of June 30, 2013	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 745,409	\$ 122,793	\$ -	\$ 868,102
Construction in progress	<u>7,458,832</u>	<u>2,987,793</u>	<u>8,729,325</u>	<u>1,717,300</u>
Total capital assets not being depreciated	<u>8,204,141</u>	<u>3,110,586</u>	<u>8,729,325</u>	<u>2,585,402</u>
Capital assets, being depreciated:				
Utility assets (pipes, pumps, plants, structures)	78,587,320	8,161,615	76,446	86,672,489
Vehicles	1,323,864	24,370	-	1,348,234
General plant and office furniture	<u>2,356,665</u>	<u>89,160</u>	<u>24,316</u>	<u>2,421,509</u>
Totals at historical cost	<u>82,267,849</u>	<u>8,275,145</u>	<u>100,762</u>	<u>90,442,232</u>
Less accumulated depreciation:				
Utility assets	25,225,278	2,214,024	46,533	27,392,769
General plant and office furniture	1,545,535	156,458	-	1,701,993
Vehicles	<u>1,046,460</u>	<u>165,531</u>	<u>20,151</u>	<u>1,191,840</u>
Total accumulated depreciation	<u>27,817,273</u>	<u>2,536,013</u>	<u>66,684</u>	<u>30,286,602</u>
Total capital assets, being depreciated, net	<u>54,450,576</u>	<u>5,739,132</u>	<u>34,078</u>	<u>60,155,630</u>
TOTAL SYSTEM CAPITAL ASSETS – NET	<u>\$ 62,654,717</u>	<u>\$ 8,849,718</u>	<u>\$ 8,763,403</u>	<u>\$ 62,741,032</u>

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note F – Long Term Debt:

Notes and bonds payable consists of the following:

	2015	2014
Notes Payable:		
Kentucky Infrastructure Agency	\$ 13,587,405	\$ 12,877,681
Bonds Payable:		
Sewer Revenue Bonds, Series 2011	4,203,500	4,264,500
2010 Revenue Bonds	-	4,400,000
Sewer Revenue Refunding Bonds, Series 2014	4,220,000	-
	22,010,905	21,542,181
Less current maturities	798,557	983,057
	\$ 21,212,348	\$ 20,559,124

Debt service requirements on notes payable and bonds payable at June 30, 2015, are as follows:

Years Ending June 30	Principal	Service Interest	Fee	Total
2016	\$ 798,557	\$ 367,204	\$ 16,862	\$ 1,182,623
2017	818,359	349,342	15,827	1,183,528
2018	838,792	335,022	14,777	1,188,591
2019	848,859	320,299	13,710	1,182,868
2020	859,561	305,385	12,627	1,177,573
2021-2025	4,426,050	1,363,041	46,423	5,835,514
2026-2030	3,993,658	767,074	21,718	4,782,450
2031-2035	1,938,310	431,816	3,805	2,373,931
2036-2040	639,000	304,356	-	943,356
2041-2045	750,500	210,595	-	961,095
Thereafter	6,099,259	105,696	-	6,204,955
TOTALS	\$22,010,905	\$4,859,830	\$ 145,749	\$27,016,484

Notes payable are secured by capital assets and restricted funds. At June 30, 2015, the above notes are payable to Kentucky Infrastructure Authority and are payable in semi-annual installments, including interest ranging from 1% to 2%. These agreements provide capital project funding utilizing a combination of both long-term borrowing and federal stimulus grants funds from the American Recovery and Reinvestment Act.

During the year ended June 30, 2013, the Agency formally issued Sewer Revenue Bonds, Series 2011, in the amount of \$4,324,000 with the first principal payment due January 1, 2014. The interest rate on the bond is 2.75%, and the bonds require annual principal payments and semi-annual interest payments through 2051. Proceeds from the bonds, which mature January 1, 2051, were used to repay the Rural Water note.

During the year ended June 30, 2015, the Agency formally issued Sewer Revenue Refunding Bonds, Series 2014, in the amount of \$4,220,000 with the first principal payment due January 1, 2016. The interest rate on the bond is variable between 1.75% and 3.00%, and the bonds require annual principal payments and semi-annual interest payments through 2031. Proceeds from the bonds, which mature January 1, 2031, were used to repay the Series 2010 (Build America Bonds) Taxable Sewer Revenue Bonds.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note F – Long Term Debt (Continued):

During the year ended June 30, 2011, the Agency issued Series 2010 (Build America Bonds) Taxable Sewer Revenue Bonds, in the amount of \$4,995,000, to finance the acquisition, construction, development and equipping of improvements and renovations to address combined sewer overflows and eliminate sanitary sewer overflows. These taxable bonds were created as part of the Recovery Act of 2009 to finance municipal agency's capital expenditures for which the US Treasury Department pays a direct subsidy of 35% of the interest cost to the issuer. During the fiscal year ended June 30, 2014, the Agency received a 7.2% reduction in the interest subsidy received due to the Federal Government Sequestration. During the year ended June 30, 2015, the bonds were paid in full with proceeds from the Sewer Revenue Refunding Bonds, Series 2014.

Long-term debt activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities:					
Bonds payable	\$ 8,664,500	\$4,220,000	\$ 4,461,000	\$ 8,423,500	\$283,000
Notes payable	<u>12,877,681</u>	<u>2,213,465</u>	<u>1,503,741</u>	<u>13,587,405</u>	<u>515,557</u>
TOTAL LONG-TERM LIABILITIES	<u>\$21,542,181</u>	<u>\$6,433,465</u>	<u>\$ 5,964,741</u>	<u>\$22,010,905</u>	<u>\$798,557</u>

Note G – Contributed Capital:

For the years ended June 30, 2015 and 2014, the Agency accepted \$290,856 and \$39,875, respectively, of sewer line extensions and a new lift station that were placed into service during the respective years by developers in McCracken County, Kentucky.

Note H – Disclosures Regarding Statements of Cash Flows:

Non-Cash Investing and Financing

	<u>2015</u>	<u>2014</u>
Non-cash investing and financing transactions received during the years ended June 30 as follows:		
Developer contributions	\$290,856	\$ 39,875
Undepreciated costs of assets disposed	7,632	34,078
Receivable due from City of Paducah for capital project	-	60,929

Note I – Risk Management:

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To handle the risk of loss, the Agency participates in a public entity risk pool offered to the members of the Kentucky Municipal Risk Management Association. Participating members pool their funds in order to provide self-insurance, and, when necessary, third-party insurance, against various public liability exposure.

The Agency is responsible for paying annual and supplementary contributions which are determined by the Board that governs the operation of the pool. The contributions are calculated based on actuarial evaluations, ratings plans, and other analyses of the amounts necessary for the payment of claims and losses.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note I – Risk Management (Continued):

In exchange, the Agency is provided with payment of all claims and losses incurred, subject to certain terms and conditions such as deductibles and coverage limits. Due to the nature of the public entity risk pool established within this policy, the Agency can receive a distribution of surplus funds in the event of excess pool assets or be assessed in the event of pool shortfalls.

Note J – Employee Retirement System:

The Agency reports 1) an asset, deferred outflows of resources; 2) liabilities, net pension liability and deferred inflows of resources; and 3) certain expenses; as a result of its statutory requirement to contribute to the County Employees Retirement System (CERS).

Plan description. The CERS is a cost-sharing multiple-employer defined benefit pension plan and is administered by the Kentucky Retirement Systems. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. CERS provides retirement, disability benefits, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. Under the provisions of Kentucky Revised Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plan:

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564-4646.

Funding policy. Non-hazardous plan members who began participating prior to September 1, 2008 are required to contribute 5% of their annual creditable compensation. Plan members who began participating on, or after, September 1, 2008 are required to contribute 6% of their annual creditable compensation, which includes 1% for retirement health insurance coverage. The current employer contribution rate is 17.67% of annual covered payroll. The actuarial determined contribution requirements of plan members and the Agency are established and may be amended by the KRS Board of Trustees. For the year ended June 30, 2014, the Agency contributed 18.89%. The Agency's contributions to CERS for the years ended June 2015 and 2014 were \$260,355 and \$285,603, respectively, equal to the required contribution for each year.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2015, the Agency reported a liability of \$2,096,632 for its proportionate share of the net pension liability. The net pension liability 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 Agency's proportion of the net pension liability was based on a projection of the Agency's share of contributions to the pension plan relative to the total contributions of all participating employers, actuarially determined. At June 30, 2015, the Agency's proportion was .064624%.

As a result of its requirement to contribute to CERS, the Agency recognized pension expenses of \$167,811 for the year ended June 30, 2015. At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note J – Employee Retirement System (Continued):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ -	\$234,035
Contributions subsequent to the measurement Date	<u>260,355</u>	<u>-</u>
TOTALS	<u>\$ 260,355</u>	<u>\$ 234,035</u>

Deferred outflows of resources in the amount of \$260,355 related to pensions resulting from the Agency's 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 of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2016	\$ 58,509
2017	58,509
2018	58,509
2019	<u>58,508</u>
TOTAL	<u>\$234,035</u>

The net pension liability as of June 30, 2015, is based on the June 30, 2014 actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

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

- Inflation – 3.5%
- Salary increases – 4.5%, average, including inflation
- Investment rate of return – 7.75%, net of pension plan investment expense, including inflation

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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 then adding expected inflation. The capital market assumptions developed

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note J – Employee Retirement System (Continued):

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 cover a longer time frame. 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. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2116. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	<u>1%</u>	3.25%
Total	<u>100%</u>	

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 members and employers will be made at statutory contributions rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's proportionate share of the net pension liability to changes in the discount rate. The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease 6.75%</u>	<u>Current Discount Rate 7.75%</u>	<u>1% Increase 8.75%</u>
The Agency's proportionate share of the net pension liability	\$2,758,021	\$2,096,632	\$1,510,839

Note K – Deferred Compensation:

The Agency participates in the Kentucky Public Employees' Deferred Compensation Plan, a self-directed multi-employer 401(k) and 457(b) plan. Under the plan, employees may defer up to 25% of eligible compensation, not to exceed the statutory limits, currently \$18,000.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note K – Deferred Compensation (Continued):

The Agency made discretionary contributions to the 401(k) plan on behalf of the employees in an amount equal to 5.36% of eligible compensation for the year ended June 30, 2014 and through December 31, 2014. Beginning January 1, 2015, the Kentucky Public Employees Deferred Comp Plan stopped accepting employer contribution. At that time, the Agency elected to continue to make the 5.36% discretionary contribution to a new plan with Nationwide Financial Services. Participants are immediately vested in the employer contribution. Employer contributions for the years ended June 30, 2015 and 2014, were \$79,120 and \$79,220, respectively.

Note L – Commitments and Contingencies:

The Agency has entered into a Consent Decree with the Kentucky Environmental and Public Protection Cabinet. The Agency is required to bring combined and sanitary sewer overflows into compliance with Federal and State guidelines. The Agency is bound by the Decree for many years to come and will incur significant costs to bring the system into compliance that can only be determined as solutions to the issues are proposed and approved by the Cabinet as outlined in the Consent Decree. The total cost of complying with this Consent Decree has not been determined, but will be significant.

The following significant contracts in progress represent future construction contractual obligations on executed construction contracts as of June 30, 2015:

	<u>Contract Total</u>	<u>Contract Cost-to-Date</u>	<u>Future Commitment</u>
Blandville West Subdivision Sewer Rehabilitation	\$ 2,500	\$ 1,675	\$ 825
Cook Street Overflow Tank	529,787	-	529,787
Homewood Overflow Tank	84,587	4,002	80,585
James Marine Sewer Extension	25,000	15,000	10,000
Kentucky Avenue Sewer Rehabilitation	55,000	35,621	19,379
Long-term Control Plan	1,076,844	906,557	170,287
Old Highway 60 Sewer Extension	7,500	3,750	3,750
Olivet Church Road/Rebecca Lane Extension	5,000	3,350	1,650
Rate Study	26,000	20,956	5,044
Smoke Testing	60,000	-	60,000
Wallace Park Combined Sewer Separation Project	<u>3,845,866</u>	<u>3,140,570</u>	<u>705,296</u>
	<u>\$5,718,084</u>	<u>\$4,131,481</u>	<u>\$1,586,603</u>

The Agency has entered into an agreement with the City of Paducah to donate a portion of the Wallace Park Sewer Separation project to the City upon completion of the project. This portion of the project was \$565,545 at June 30, 2015 and is classified as an other asset. Due to the fact that this will be donated upon completion, a liability is recorded in other liabilities for the same amount. The project was near completion at June 30, 2015.

Note M – Board Designated Funds:

It is the policy of the current Board of Directors to designate up to \$135,000 annually for high dollar capital equipment purchases, emergencies or rate stabilization in the event of a loss of substantial revenue stream. The Board's intent is to establish a maximum funding level of \$3 million and a minimum level of \$750 thousand in this fund. Designations of amounts represent tentative management plans, but are subject to change. Unrestricted net assets at June 30, 2015 and 2014, consist of the following:

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

Note M – Board Designated Funds (Continued):

	2015	2014
Designations - high dollar capital equipment, emergencies and rate stabilization	\$ 3,000,000	\$ 3,000,000
Undesignated	7,564,063	11,632,798
TOTALS	\$10,564,063	\$14,632,798

Note N – Interest Expense:

For the years ended June 30, 2015 and 2014, interest expense before adjustment for capitalized construction period interest was \$535,914 and \$562,846, respectively. For the years ended June 30, 2015 and 2014, interest expense of \$125,209 and \$116,880, respectively, was capitalized as part of construction in progress.

Note O – Subsequent Events:

Management has evaluated subsequent events through October 23, 2015, the date which the financial statements were available to be issued.

Note P – Change in Accounting Principle and Restatement of Beginning Net Position:

During the year ended June 30, 2012, the Agency began the Wallace Park Separation Project. As part of the project, the Agency has agreed to donate a portion of the project to the City of Paducah upon completion. Expenses were incurred during the years ended June 30, 2012, 2013 and 2014 and no liability was recorded for the portion of the project to be donated. The following adjustments were made to reflect this liability:

Net position July 1, 2013, as previously stated	\$57,755,799
Adjustments to recognize 2012 and 2013 expenses	(407,778)
NET POSITION JULY 1, 2013, AS RESTATED	57,348,021
Change in net position, as previously stated	(43,614)
Adjustment to record project expenses during the year ended June 30, 2014	(157,767)
NET POSITION JULY 1, 2014, AS RESTATED	\$57,146,640

Project expenses of \$157,767 were incurred during the year ended June 30, 2014. An adjustment was made to increase the liability by this amount with the offsetting entry being to miscellaneous expense.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The new standard addresses several issues regarding public pension plans, including the liabilities reported pertaining to unfunded portions and the disclosure requirements of those plans. The standard is effective for the Agency for the fiscal year beginning July 1, 2014. The new standard requires the Agency to report its proportionate share of the total net pension liability of the County Employee Retirement System Plan as a liability on the statement of net position and on the statement of revenues, expenses, and changes in net position. The standard also requires the deferral of changes in the net pension liability and amortization of those changes over set periods.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014**

Note P – Change in Accounting Principle and Restatement of Beginning Net Position (Continued):

The Agency’s proportionate share of the net pension liability and deferred outflows at July 1, 2014 was \$2,442,913 and \$280,057, respectively. Beginning net position at July 1, 2014 has been adjusted to reflect this.

Net position July 1, 2014, as restated above		\$57,146,640
Proportionate share of net pension liability	\$(2,442,913)	
Deferred outflows:		
Contributions made after the measurement date	280,057	
Adjustments to net position		(2,162,856)
NET POSITION JULY 1, 2014, AS RESTATED		<u>\$54,983,784</u>

The net position at June 30, 2013 and related deferred outflows and inflows could not be determined in a practical manner. Therefore, net position at June 30, 2013 has not been restated and is presented based on previous guidance under GASB Statement No. 27.

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH McCRACKEN JOINT SEWER AGENCY
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS)
LAST FISCAL YEAR*

	2015
Employer's proportion of the net pension liability	0.0646%
Employer's proportionate share of the net pension liability	\$ 2,096,632
Employer's covered-employee payroll	\$ 1,482,568
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.42%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* The amounts presented were determined as of June 30 of the preceeding year. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is based on the last measurement date of the net pension liability, which was June 30, 2014.

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS)
 LAST FISCAL YEARS***

	2015	2014
Contractually required contribution	<u>\$ 260,355</u>	<u>\$ 280,057</u>
Contributions in relation to the contractually required contribution	<u>260,355</u>	<u>280,057</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 1,473,430	\$ 1,482,568
Contributions as a percentage of covered-employee payroll	17.67%	18.89%

* The amounts presented for each fiscal year were determined as of June 30. Until a full 10-year trend is compiled, governments will present information only for those years for which information is available.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end.

SUPPLEMENTAL INFORMATION

PADUCAH MCCRACKEN JOINT SEWER AGENCY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Original and Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Operating Revenues:			
Charges for services	<u>\$7,025,500</u>	<u>\$6,921,452</u>	<u>\$ (104,048)</u>
Operating Expenses:			
Salaries and wages	2,365,822	2,134,477	(231,345)
Chemicals, testing, and solids disposal	352,250	328,761	(23,489)
Utilities	735,800	722,744	(13,056)
Materials, supplies, and repairs	439,000	478,986	39,986
Fleet expense	122,500	91,049	(31,451)
Liability insurance	115,000	118,100	3,100
Training, safety, and dues	38,800	34,109	(4,691)
Professional fees	130,250	109,065	(21,185)
Office expense	13,300	16,353	3,053
Public education	3,500	3,190	(310)
Billing and collections	124,500	122,076	(2,424)
Bad debts	45,600	48,868	3,268
Board of Directors expense	16,800	16,800	-
Miscellaneous	18,500	26,860	8,360
Depreciation	<u>2,575,000</u>	<u>2,557,652</u>	<u>(17,348)</u>
Total operating expenses	<u>7,096,622</u>	<u>6,809,090</u>	<u>(287,532)</u>
Operating income (loss)	<u>(71,122)</u>	<u>112,362</u>	<u>183,484</u>
Non-operating Revenues (Expenses):			
Investment revenue	32,500	33,831	1,331
Interest expense	(651,000)	(410,705)	240,295
Amortization	(11,865)	(6,177)	5,688
Gain (loss) on sale of assets	(20,000)	11,446	31,446
Loss on bond refinancing	-	(52,424)	(52,424)
Tap-on and assessment fees	177,000	256,193	79,193
Other, net	<u>(9,170)</u>	<u>(16,336)</u>	<u>(7,166)</u>
Total non-operating revenues (expenses), net	<u>(482,535)</u>	<u>(184,172)</u>	<u>298,363</u>
Change in net position before capital contributions	<u>(553,657)</u>	<u>(71,810)</u>	<u>481,847</u>
Capital Contributions:			
Grant revenue	-	320,868	320,868
Contributed capital	-	290,856	290,856
Total capital contributions	<u>(553,657)</u>	<u>611,724</u>	<u>611,724</u>
INCREASE (DECREASE) IN NET ASSETS	<u><u>\$ (553,657)</u></u>	<u><u>\$ 539,914</u></u>	<u><u>\$1,093,571</u></u>

See independent auditor's report.

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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board of Directors
Paducah McCracken Joint Sewer Agency
Paducah, Kentucky

We have audited 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, the financial statements of the business-type activities of Paducah McCracken Joint Sewer Agency as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Paducah McCracken County Joint Sewer Agency'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 Paducah McCracken Joint Sewer Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paducah McCracken Joint Sewer Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Paducah McCracken Joint Sewer Agency'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 Paducah McCracken Joint Sewer Agency'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Paducah, Kentucky
October 23, 2015

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**Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

Board of Directors
Paducah McCracken Joint Sewer Agency
Paducah, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Paducah McCracken Joint Sewer Agency's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Paducah McCracken Joint Sewer Agency's major federal programs for the year ended June 30, 2015. Paducah McCracken Joint Sewer Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Paducah McCracken Joint Sewer Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paducah McCracken Joint Sewer Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Paducah McCracken Joint Sewer Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, Paducah McCracken Joint Sewer Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.


Report on Internal Control Over Compliance

Management of Paducah McCracken Joint Sewer Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Paducah McCracken Joint Sewer Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paducah McCracken Joint Sewer Agency's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Paducah, Kentucky
October 23, 2015

**PADUCAH MCCRACKEN COUNTY JOINT SEWER AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Environmental Protection Agency:</u>			
Passed through Kentucky Infrastructure Authority: Capitalization Grants for Clean Water State Revolving Funds	66.458	A12-08	<u>\$ 1,447,861</u>
Total U.S. Environmental Protection Agency			<u>1,447,861</u>
<u>U.S Department of Commerce Economic Development Administration:</u>			
Investments for Public Works and Economic Development Facilities	11.300		<u>\$ 314,868</u>
Total U.S Department of Commerce E.D.A.			<u>314,868</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 1,762,729</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Note A - Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Paducah McCracken Joint Sewer Agency and is presented on the accrual method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Reconciliation to Financial Statements:

Total federal award expenditures above	\$ 1,762,729
Less: Federal award expenditures above applicable to loan program	<u>(1,447,861)</u>
	314,868
Other grants	<u>6,000</u>
TOTAL GRANT REVENUE PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	<u><u>\$ 320,868</u></u>

See independent auditor's report.

PADUCAH MCCRACKEN JOINT SEWER AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

Section 1 - Summary of Auditor's Results:

1. The auditor's report expresses an unmodified opinion on the financial statements of the Paducah McCracken Joint Sewer Agency.
2. No significant deficiencies were disclosed relating to the audit of the financial statements. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Paducah McCracken Joint Sewer Agency were disclosed during the audit.
4. No instances of significant deficiencies were disclosed during the audit of internal control over major federal award programs. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal awards programs for the Paducah McCracken Joint Sewer Agency expresses an unmodified opinion.
6. There were no audit findings that required reporting in accordance with Section 510(a) of OMB Circular A-133 is reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA #</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Investments for Public Works and Economic Development Facilities	11.300

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Paducah McCracken Joint Sewer Agency was not determined to be a high-risk auditee.

Section II - Findings - Financial Statements Audit:

There were no findings in the current year required to be reported.

Section III - Findings and Questioned Costs - Major Federal Awards Programs:

There were no findings in the current year required to be reported.

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Section II – Findings – Financial Statements Audit:

There were no findings reported.

Section III – Findings and Questioned Costs – Major Federal Awards Programs:

There were no findings or questioned costs.