

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

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**FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2018 AND 2017**

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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 years ended June 30, 2018 and 2017, 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 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 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, 2018 and 2017, and the changes in its 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 O to the financial statements, in fiscal year 2018 Paducah McCracken Joint Sewer Agency adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than 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 3 through 8 and schedules of employer's proportionate share of the net pension liability and the net postemployment benefits other than pension liability, and employer contributions information on pages 29 - 32 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 33 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information 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 budgetary comparison information is fairly stated in all material respects in relation to the 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 11, 2018, 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.

*Williams, Williams & Lentz, LLP*

Paducah, Kentucky  
October 11, 2018



WILLIAMS  
WILLIAMS  
& LENTZ

**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, 2018.

### **Financial Highlights**

- Net capital assets increased \$1.7 million (2.5%) over prior FY
- Total net position increased \$478 thousand during the year
- Operating revenues up \$1.2 million (15.0%) over FY 2017
- Debt service coverage ratio above level of compliance at 2.85 for FY 2018

### **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 generated and expenses 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)

	<u>FYE 6/30/18</u>	<u>FYE 6/30/17</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets</b>				
Current assets	\$ 12,978	\$ 13,851	\$ (873)	-6.3%
Capital assets	67,383	65,714	1,669	2.5%
Restricted funds	1,178	1,170	8	0.7%
Deferred charges & other noncurrent assets	<u>2,021</u>	<u>808</u>	<u>1,213</u>	150.1%
Total assets	<u>83,560</u>	<u>81,543</u>	<u>2,017</u>	2.5%
<b>Deferred Outflows of Resources</b>	<u>1,508</u>	<u>666</u>	<u>842</u>	126.4%
<b>Liabilities &amp; net position</b>				
Current liabilities	1,832	2,562	(730)	28.5%
Noncurrent liabilities	<u>26,284</u>	<u>23,541</u>	<u>2,743</u>	11.7%
Total liabilities	<u>28,116</u>	<u>26,103</u>	<u>2,013</u>	7.7%
<b>Deferred Inflows of Resources</b>	<u>437</u>	<u>68</u>	<u>369</u>	542.6%
Invested in capital assets, net	44,748	44,079	669	1.5%
Restricted	1,178	1,170	8	0.7%
Unrestricted	<u>10,590</u>	<u>10,789</u>	<u>(199)</u>	-1.8%
Total net position	<u>\$ 56,516</u>	<u>\$ 56,038</u>	<u>\$ 478</u>	0.8%

### Capital Assets and Long-Term Debt Activity

Net capital assets increased by \$1.7 million during FY 2018. At the close of the current fiscal year, JSA had over \$103 million in undepreciated cost of total capital assets. Capital assets may be acquired through purchase, by the completion of projects (either in-house or by contractors), or by contribution of assets to the JSA by private developers.

JSA was nearing completion on the Reidland Above Ground Storage Tank having drawn \$1.7 million against a current Kentucky Infrastructure Authority (KIA) loan during the fiscal year. Two additional overflow storage tanks were either in the planning stages or nearing construction as of June 30, 2018. The building of these tanks was negotiated as part of the Consent Judgment with the Kentucky Environmental and Public Protection Cabinet and Environmental Protection Agency. The Agency will be in search of funding options in the years to come as they complete additional Consent Judgment projects.

The JSA continues to rebuild and rehabilitate 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 2018 by \$2 million or 7.7% over FY 2017. There was an increase in JSA's net pension liability from \$3.0 million to \$4.8 million, partially due to new reporting requirements.

The JSA's total net position increased by \$478 thousand or 0.8% during FY 2018. Net capital assets less total debt increased by \$669 thousand, but were offset by the \$199 thousand decrease in unrestricted assets.

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

	<b>FYE 6/30/18</b>	<b>FYE 6/30/17</b>	<b>Dollar Change</b>	<b>Percent Change</b>
<b>Revenues</b>				
Operating revenues	\$ 9,143	\$ 7,949	\$ 1,194	15.0%
Non-operating revenues	<u>376</u>	<u>654</u>	<u>(278)</u>	-42.5%
Total revenues	<u>9,519</u>	<u>8,603</u>	<u>916</u>	10.6%
<b>Expenses</b>				
Depreciation	2,847	2,830	17	0.6%
Operating expenses	4,875	4,748	127	2.7%
Non-operating expenses	<u>514</u>	<u>482</u>	<u>32</u>	6.6%
Total expenses	<u>8,236</u>	<u>8,060</u>	<u>176</u>	2.2%
<b>Contributions</b>	<u>81</u>	<u>64</u>	<u>17</u>	26.6%
<b>Change in net position</b>	<b>1,364</b>	<b>607</b>	<b>757</b>	<b>124.7%</b>
Beginning net position, adjusted	<u>55,152</u>	<u>55,431</u>	<u>(279)</u>	-0.5%
<b>Ending net position</b>	<b>\$ 56,516</b>	<b>\$ 56,038</b>	<b>\$ 478</b>	<b>0.9%</b>

**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 2018 finished \$1.2 million 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 \$309 thousand more than budgeted for FY 2018. Operating expenses came in over budget for the fiscal year finishing \$162 thousand above estimate. This is primarily due to the new pension and insurance reporting requirements mandated by GASB, which were unknown, and not reasonable to estimate, during the development of the operating budget.

JSA received \$81 thousand in capital contributions during the fiscal year. These contributions came in the forms of grant revenue of \$4 thousand and developer non-cash contributions of \$77 thousand.

**Results of Operations**

Total revenues of \$9.1 million, showed an increase of \$1.2 million or 15.0% from FY 2017. This growth in revenue is due to a rate increase that was effective the last quarter of FY 2017. Total expenses increased \$176 thousand or 2.2% from FY 2017.

**EXHIBIT 3: Detail of Operating Expenses (Excluding Depreciation)**

<b>Operating Expenses (in thousands)</b>	<b>FYE 6/30/18</b>	<b>FYE 6/30/17</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Salaries, wages and benefits	\$ 2,590	\$ 2,426	\$ 164	6.8%
Chemicals, testing & solids disposal	409	426	(17)	-4.0%
Utilities	802	808	(6)	-0.7%
Material, supplies and repairs	464	508	(44)	-8.7%
Fleet expense	104	92	12	13.0%
Professional fees	82	79	3	3.8%
Billing, collection and bad debts	206	189	17	9.0%
All other	218	220	(2)	-0.9%
<b>Total</b>	<b>\$ 4,875</b>	<b>\$ 4,748</b>	<b>\$ 127</b>	<b>2.7%</b>

**Salaries, Wages and Benefits**

Salaries, wages and benefits comprise the bulk of operating expenses. These expenses increased 6.8% over FY 2017. However, there were net decreases in salaries, wages and overtime of \$54 thousand, and normal pension costs remained the same. The JSA recorded a \$420 thousand increase in pension expenses over the prior year, partially due to new reporting requirements mandated by GASB. Employees received annual wage increases during FY 2018 and 2017.

**Other Operating Expenses**

Chemicals, testing and solids disposal showed a \$17 thousand increase 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. For FY 2017 and a portion of FY 2018, JSA experienced higher costs associated with charges from the City of Paducah for composting. In addition, during both years, JSA was forced to landfill sludge at higher costs for an extended period, due to the inability of the City of Paducah to process sludge at times.

The largest component of utilities expense is electricity costs. Electricity costs vary from year to year based on flows received and pumped. JSA has experienced slightly higher loadings at its Paducah Wastewater Treatment Plant from certain industrial dischargers, which require more electricity to provide for adequate treatment. While this is a cost increase, JSA recoups these costs through surcharges to industrial users.

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. This account showed a \$44 thousand decrease from the prior fiscal year. Repair costs vary significantly based on the type, equipment, and location of the work.

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. Expenses decreased in FY 2018 compared to the prior fiscal year. In FY 2017, several above-average cost activities were performed to rebuild pumps, generators, and other lift station and treatment components, which account for that year's increase. These activities were required to maintain the equipment in good working order, and prevent total replacement costs. Repairs were made as follows:

**EXHIBIT 4: Repairs by Department (in thousands)**

<b>Department</b>	<b>FYE 2018</b>	<b>FYE 2017</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Collection System (pipes)	\$ 201	\$ 214	\$ (13)	-6.1%
Lift Stations (pipes & pumps)	40	69	(29)	-42.0%
Treatment Plants (pipes, pumps & motors)	44	59	(15)	-25.4%
<b>Total</b>	<b>\$ 285</b>	<b>\$ 342</b>	<b>\$ (57)</b>	<b>-16.7%</b>

Fleet expense increased \$12 thousand, or 13.0%, over the prior fiscal year. The JSA maintains a vehicle replacement program to cull the aging fleet and attempt to minimize extensive repair costs.

FY 2018 professional fees were \$3 thousand more than in FY 2017. This account consists of legal and accounting fees, as well as contractual services, containing certain engineering fees and software contractual services. Contractual services were the primary cost increase for FY 2018; however, the costs for this category were \$7 thousand below budget.

Paducah Water provides billing and collection services for the JSA. Bad debt write offs finished as expected at \$67 thousand, or \$3 thousand below budget.

All other expenses totaled \$218 thousand for FY 2018 and included costs for insurance, training and safety, office expense, public education, board of directors' expense and miscellaneous expense. The budget for all other expenses was \$216 thousand.

**Debt Service Coverage**

Debt service coverage (DSC) ratio is an indicator of the JSA's ability to meet its debt obligations. The JSA Board strives to maintain a minimum DSC ratio of 1.30 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 has continued to exceed the minimum DSC ratio set by the board. The Agency's DSC ratio was 2.85 in 2018 and 2.46 in 2017.

**Relevant Current Economic Factors and Other Significant Matters**

New home construction in the area has been slow which is representative of the current U.S. market. While the area experienced a surge in the construction of apartment buildings during FY 2017, with several hundred units being constructed, that provided for only a temporary surge in connection fees for the JSA.

JSA has begun to see an increase in interest rates, after several years of nearly zero returns. This income will continue to fluctuate with adjustments in 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 and the Environmental Protection Agency in September 2007 to bring combined and sanitary sewer overflows into compliance with Federal and State guidelines. The Agency's Long Term Control Plan (LTCP), a planning document mandated by the Consent Judgment, was approved on October 10, 2016. This LTCP requires compliance within the combined sewers, sewers carrying both storm and sanitary flow, to be completed over a twenty-two year timeframe. The cost to bring the combined system into compliance, as outlined in the LTCP, is \$102 million. This amount does not take into consideration any other capital projects JSA will have to fund over the next twenty-two years. As a result, future rate increases will be necessary to achieve this undertaking. JSA implemented a revision of rates effective March 1, 2016, and July 1, 2017. In addition, JSA has built-in the ability to adjust rates by the Consumer Price Index – Urban (CPI-U) for subsequent years. 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 will continue 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**

	<u>2018</u>	<u>2017</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,847,737	\$ 6,553,042
Investments and accrued interest	6,468,860	5,861,876
Customer accounts receivable	526,246	422,230
Grants and other receivables	24,173	33,301
Accrued unbilled revenue	770,000	651,000
Inventories and prepaid expenses	341,246	329,090
	<hr/>	<hr/>
Total current assets	12,978,262	13,850,539
<b>Noncurrent Assets:</b>		
Utility plant and capital assets, net	67,383,017	65,713,831
Investments	1,977,784	-
Restricted assets and investments	1,178,303	1,169,923
Bond discount - net	41,260	47,010
Other noncurrent assets	1,800	761,584
	<hr/>	<hr/>
Total noncurrent assets	70,582,164	67,692,348
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>83,560,426</b>	<b>81,542,887</b>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred pension plan outflows	1,157,417	665,651
Deferred other postemployment benefit plan outflows	350,370	-
	<hr/>	<hr/>
Total deferred outflows of resources	1,507,787	665,651

**LIABILITIES**

<b>Current Liabilities:</b>		
Notes and bonds payable	1,159,083	1,121,899
Accounts payable	442,542	426,864
Salaries and benefits payable	93,789	93,899
Other current liabilities	136,366	918,932
	<hr/>	<hr/>
Total current liabilities	1,831,780	2,561,594
<b>Noncurrent Liabilities:</b>		
Notes and bonds payable	21,476,241	20,513,205
Net pension liability	3,578,420	3,028,183
Net other postemployment benefit plan liability	1,229,023	-
	<hr/>	<hr/>
Total noncurrent liabilities	26,283,684	23,541,388
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>28,115,464</b>	<b>26,102,982</b>

**DEFERRED INFLOWS OF RESOURCES**

Deferred pension plan inflows	372,540	67,739
Deferred other postemployment benefit plan inflows	64,348	-
	<hr/>	<hr/>
Total deferred inflows of resources	436,888	67,739

**NET POSITION**

Invested in capital assets, net of related debt	44,747,693	44,078,727
Restricted for debt service	1,178,303	1,169,923
Unrestricted - net assets	10,589,865	10,789,167
	<hr/>	<hr/>
<b>TOTAL NET POSITION</b>	<b>\$ 56,515,861</b>	<b>\$ 56,037,817</b>

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>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 9,142,934	\$ 7,948,802
<b>Operating Expenses:</b>		
Salaries, wages and benefits	2,590,023	2,426,371
Chemicals, testing, and solids disposal	409,278	426,213
Utilities	801,863	808,386
Materials, supplies, and repairs	463,618	507,509
Fleet expense	104,132	92,238
Liability insurance	130,619	127,893
Training, safety, and dues	39,437	32,842
Professional fees	82,387	79,185
Office expense	11,052	17,625
Public education	2,659	750
Billing and collections	138,899	133,579
Bad debts	67,282	55,625
Board of directors expense	16,800	16,600
Miscellaneous	16,663	23,598
Depreciation	<u>2,847,493</u>	<u>2,829,697</u>
Total operating expenses	<u>7,722,205</u>	<u>7,578,111</u>
Operating income	<u>1,420,729</u>	<u>370,691</u>
<b>Non-operating Revenues (Expenses):</b>		
Investment revenue	147,579	65,629
Interest expense	(446,968)	(426,617)
Amortization	(5,750)	(6,029)
Gain (loss) on sale of assets	5,542	42,915
Tap-on and assessment fees	223,310	545,556
Other, net	<u>(61,747)</u>	<u>(49,528)</u>
Total non-operating revenues (expenses), net	<u>(138,034)</u>	<u>171,926</u>
Change in net position before capital contributions	<u>1,282,695</u>	<u>542,617</u>
<b>Capital Contributions:</b>		
Grant revenue	4,500	4,500
Contributions from developers	<u>76,740</u>	<u>59,240</u>
Total capital contributions	<u>81,240</u>	<u>63,740</u>
Change in net position	1,363,935	606,357
Net position, beginning	56,037,817	55,431,460
Adjustment to net position, see note O	<u>(885,891)</u>	<u>-</u>
Net position, beginning, as restated	<u>55,151,926</u>	<u>55,431,460</u>
<b>NET POSITION, ENDING</b>	<u><u>\$ 56,515,861</u></u>	<u><u>\$ 56,037,817</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**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities:</b>		
Collections from customers	\$ 8,856,771	\$ 7,960,749
Cash paid to suppliers	(2,219,087)	(2,227,597)
Cash paid to employees	(2,164,764)	(2,239,248)
	<u>4,472,920</u>	<u>3,493,904</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Grants and contributed capital	4,500	4,500
Tap-on fees and assessments	223,310	545,556
Acquisition of capital assets	(4,433,719)	(3,116,682)
Proceeds from the sale of fixed assets	6,246	61,034
Proceeds from debt issues	2,132,673	510,096
Principal payments on long-term debt	(1,132,453)	(1,084,898)
Interest payments on long-term debt	(471,705)	(471,696)
(Increase)/decrease in other noncurrent assets	239	80
Other, net	(61,747)	(49,528)
	<u>(3,732,656)</u>	<u>(3,601,538)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales and maturities of investments	5,860,944	7,473,370
Purchases of investments	(8,456,429)	(6,583,551)
Investment earnings	149,916	48,326
	<u>(2,445,569)</u>	<u>938,145</u>
Net increase (decrease) in cash and cash equivalents	(1,705,305)	830,511
Cash and cash equivalents, beginning of year	<u>6,553,042</u>	<u>5,722,531</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 4,847,737</u></u>	<u><u>\$ 6,553,042</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 1,420,729	\$ 370,691
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,847,493	2,829,697
Changes in operating assets and liabilities:		
Accounts receivable	(94,888)	69,325
Accrued unbilled revenue	(119,000)	(1,000)
Inventory and prepaid expenses	(12,156)	11,590
Deferred outflows of resources	(842,136)	(162,636)
Accounts payable	32,175	26,526
Salaries and benefits payable	(110)	7,376
Other current liabilities	(21,705)	705
Net pension liability	893,369	310,190
Deferred inflows of resources	369,149	31,440
	<u>\$ 4,472,920</u>	<u>\$ 3,493,904</u>

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, 2018 AND 2017**

**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 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 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 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 Cash Equivalents**

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.

**Accrued Unbilled Revenue**

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

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note A - Summary of Significant Accounting Policies (Continued):**

**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.

**Pensions and Postemployment Benefits Other Than Pensions**

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

**Reclassifications**

Certain reclassifications have been made to the June 30, 2017 financial statements to make them conform to the June 30, 2018 presentation.

**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, for maintenance reserves as required, and for ongoing capital projects. These balances are classified as restricted assets on the statements of net position 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, 2018 AND 2017**

**Note B - Restricted Assets and Investments (Continued):**

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

	<b>2018</b>	<b>2017</b>
Certificates of deposit - various financial institutions	\$ 397,053	\$ 642,413
U.S. Government money market funds	781,250	527,510
<b>TOTALS</b>	<b>\$1,178,303</b>	<b>\$1,169,923</b>

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:**

**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 value. 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, 2018 and 2017, the Agency's investments include U.S. Government money market funds, demand deposits, and certificates of deposit. The investments are reported at quoted market price, and the bank balance of cash and investments totaled \$13,215,138 and \$12,355,526, respectively, at June 30, 2018 and 2017, with \$0 and \$0, 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, 2018 AND 2017**

**Note D - Construction in Progress:**

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

	<u>2018</u>	<u>2017</u>
Anita Drive Pump Station Capacity Evaluation	\$ 57,074	\$ 14,061
Brentwood PS Pumps & Control Panel Upgrade	-	15,594
Chickadee Lift Station Elimination Project	11,368	11,369
Harrison Street Storage Tank	689,292	241,321
Harrison Street PS Renovation / Collection System Upgrade	744	-
Manhole Rehabilitation Contract	-	11,485
Massac Creek Phase III Study	42,069	19,500
Metal Building	-	23,341
Old Highway 60 Extension	-	4,250
Olivet Church Road/Rebecca Lane Extension	52,696	52,696
Perkins Creek Lift Station Rehabilitation	6,250	-
Perkins Creek Tank Preliminary Engineering	53,919	30,810
PWWTP Electrical Upgrade	127,215	4,748
Rehab Contract CY '18	20,728	-
Rehab Contract CY '17	-	18,863
Reidland Above Ground Storage Tank	2,192,934	295,948
Reidland/Epperson Rds Force Main Replacement Projects	-	14,426
Roofs at RWWTP & JSA Admin Building	-	258
SCADA Server Upgrade	53,688	53,688
Video and Cleaning Contract 2018	16,945	-
Video and Cleaning Contract 2017	-	16,954
Waid Package Plant Removal	41,349	-
Capitalized Interest	<u>23,421</u>	<u>11,973</u>
<b>TOTALS</b>	<u><b>\$3,389,692</b></u>	<u><b>\$841,285</b></u>

Construction in progress related invoices of \$162,132 and \$178,629 were included in accounts payable at June 30, 2018 and 2017, respectively.

**Note E - Capital Assets:**

Capital assets consists of the following at June 30:

	<u>2018</u>			
	<u>Balance as of</u>			<u>Balance as of</u>
	<u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 979,636	\$ -	\$ -	\$ 979,636
Construction in progress	<u>841,285</u>	<u>3,953,679</u>	<u>1,405,272</u>	<u>3,389,692</u>
 Total capital assets not being depreciated	 <u>1,820,921</u>	 <u>3,953,679</u>	 <u>1,405,272</u>	 <u>4,369,328</u>

(Continued)



**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note F - Notes and Bonds Payable:**

Notes and bonds payable consists of the following:

	<b>2018</b>	<b>2017</b>
Notes Payable:		
Kentucky Infrastructure Authority	\$15,097,324	\$13,789,604
Bonds Payable:		
Sewer Revenue Bonds, Series 2012	4,008,000	4,075,500
Sewer Revenue Refunding Bonds, Series 2014	3,530,000	3,770,000
	22,635,324	21,635,104
Less current maturities	1,159,083	1,121,899
	<b>\$21,476,241</b>	<b>\$20,513,205</b>

During the year ended June 30, 2018, the Agency made a \$1,678,017 draw on a \$2,385,000 note payable to Kentucky Infrastructure Authority. Payments made on the note are interest only until the full amount of the note has been drawn. The balance at June 30, 2018 is included on the thereafter line on the schedule below.

Debt service requirements on notes and bonds payable at June 30, 2018, are as follows:

<b>Years Ending</b>	<b>Service</b>			
<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Fee</b>	<b>Total</b>
2019	\$ 1,159,083	\$ 447,353	\$ 26,415	\$ 1,632,851
2020	1,176,021	426,204	24,709	1,626,934
2021	1,197,723	404,622	22,973	1,625,318
2022	1,220,193	382,816	21,210	1,624,219
2023	1,242,938	359,843	19,414	1,622,195
2024-2028	5,963,848	1,428,882	71,030	7,463,760
2029-2033	5,246,849	783,525	31,579	6,061,953
2034-2038	1,660,650	369,911	3,205	2,033,766
2039-2043	703,500	249,920	-	953,420
2044-2048	826,500	146,630	-	973,130
Thereafter	2,238,019	31,061	-	2,269,080
<b>TOTALS</b>	<b>\$22,635,324</b>	<b>\$5,030,767</b>	<b>\$220,535</b>	<b>\$27,886,626</b>

Notes payable are secured by capital assets and restricted funds. At June 30, 2018, the above notes are payable to Kentucky Infrastructure Authority and are payable in semi-annual installments, including interest ranging from 1.0% to 2.0%. These agreements provide capital project funding utilizing a combination of both long-term borrowing and federal stimulus grant funds from the American Recovery and Reinvestment Act.

During the year ended June 30, 2013, the Agency formally issued Sewer Revenue Bonds, Series 2012, 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, 2018 AND 2017**

**Note F - Notes and Bonds Payable (Continued):**

Notes and bonds payable activity for the year ended June 30, 2018, 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	\$ 7,845,500	\$ -	\$ 307,500	\$ 7,538,000	\$ 309,500
Notes payable	<u>13,789,605</u>	<u>2,132,673</u>	<u>824,954</u>	<u>15,097,324</u>	<u>849,583</u>
 TOTAL LONG-TERM LIABILITIES	 <u>\$ 21,635,105</u>	 <u>\$2,132,673</u>	 <u>\$ 1,132,454</u>	 <u>\$ 22,635,324</u>	 <u>\$ 1,159,083</u>

**Note G - Contributed Capital:**

For the years ended June 30, 2018 and 2017, the Agency accepted \$76,740 and \$59,240, 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>2018</u>	<u>2017</u>
Non-cash investing and financing transactions received during the years ended June 30 were as follows:		
Developer contributions	\$76,740	\$59,240
Undepreciated costs of assets disposed	\$ 704	\$18,119

**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.

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.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System:**

*Plan description and benefits provided.* Employees of Paducah McCracken Joint Sewer Agency participate in the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer, defined benefit pension plan, which is administered by the Kentucky Retirement Systems (KRS). 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 other eligible local agencies electing to participate. The Agency does not have any employees participating in hazardous duty positions. CERS provides for retirement and death benefits to plan members as well as disability to members other than those in the third tier. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments (COLA) are provided at the discretion of the State legislature. Under the provisions of Kentucky Revised Section 61.645, the Board of Trustees of Kentucky Retirement Systems provides for the establishment of the system and benefit amendments are authorized by the State legislature. 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

The CERS also provides other post-employment benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund), which was established to provide hospital and medical insurance for members receiving benefits from CERS. The Insurance Fund is a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Kentucky Retirement Systems. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The amount of contribution paid by the Insurance Fund is based upon years of service. All participants enrolled in CERS are automatically enrolled in both the Insurance Fund and the pension plan. Information regarding the Insurance Fund is contained in the financial statements of the Kentucky Retirement Systems.

*Funding policy.* Contribution rates are established by the Kentucky Revised Statutes. 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 an additional 1% for retirement health insurance coverage. Plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan which is a hybrid plan with characteristics of both a defined benefit plan and a defined contribution plan. Members in the Cash Balance Plan are required to contribute at the same rates as plan members who began participating on or after September 1, 2008. The employer contribution plan rate for non-hazardous plan members was 19.18% for the year ended June 30, 2018. The required contribution rate for fiscal year ending June 30, 2017 18.68%. The contribution rate is a combined rate for both the pension plan and the Insurance Fund. For the fiscal year ended June 30, 2018, the pension plan portion was 14.48% and the Insurance Fund portion was 4.70%. These percentages were 13.95% and 4.73% for the fiscal year ended June 30, 2017. The pension contributions for fiscal years ended June 30, 2018 and 2017 were \$209,257 and \$207,334, respectively. The insurance contributions for fiscal years ended June 30, 2018 and 2017 were \$67,922 and \$70,300, respectively. The actuarially determined contribution requirements of plan members and the Agency are established and may be amended by the KRS Board of Trustees.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Pension Fund**

*Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions.* The Agency reported a liability of \$3,578,420 and \$3,028,183 at June 30, 2018 and 2017, respectively, for its proportionate share of the net pension liability. The total pension liability was rolled-forward from the actuarial valuation date of June 30, 2016 to the plan's fiscal year ending, June 30, 2017, using generally accepted actuarial principles. 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, 2018 and 2017, the Agency's proportion was 0.061135% and 0.06150%.

As a result of its requirement to contribute to CERS, the Agency recognized pension expense of \$572,839 and \$379,567 for the year ended June 30, 2018 and 2017, respectively. At June 30, 2018, 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:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Net difference between projected and actual earnings on plan investments	\$ 283,407	\$239,146
Difference between expected and actual experience	4,438	90,836
Changes of assumptions	660,315	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	42,558
Contributions subsequent to the measurement date	<u>209,257</u>	<u>-</u>
<b>TOTALS</b>	<b><u>\$ 1,157,417</u></b>	<b><u>\$372,540</u></b>

At June 30, 2017, 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:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Net difference between projected and actual earnings on plan investments	\$ 284,680	\$ -
Difference between expected and actual experience	13,220	-
Changes of assumptions	160,417	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	67,739
Contributions subsequent to the measurement date	<u>207,334</u>	<u>-</u>
<b>TOTALS</b>	<b><u>\$ 665,651</u></b>	<b><u>\$67,739</u></b>

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Pension Fund**

Deferred outflows of resources in the amount of \$209,257 related to pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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</u> <u>June 30</u>	
2019	\$243,763
2020	259,431
2021	118,377
2022	(45,951)

The net pension liability as of June 30, 2018, is based on the June 30, 2016, actuarial valuation as rolled forward to the plan's fiscal year end June 30, 2017 using generally accepted actuarial principles. Deferred outflows and inflows related to the net difference between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Deferred outflows and inflows related to differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a period of 3.50 years.

*Actuarial assumptions.* The total pension liability, net pension liability, and sensitivity information for the actuarial valuation as of June 30, 2017 was based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017 (a complete list of actuarial assumptions is listed in the Required Supplementary Information section of this report):

Inflation - 2.3%

Salary increases - 3.05%, average including inflation

Investment rate of return - 6.25%, net of pension plan investment expense including inflation

Payroll growth rate - 2.00%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return on plan assets was determined by using a building block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Pension Fund**

*Discount rate.* The discount rate used to measure the total pension liability was 6.25%. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members. 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 Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	2.00%	1.88%
Total	<u>100.00%</u>	

*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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease</u> <u>5.25%</u>	<u>Current Discount Rate</u> <u>6.25%</u>	<u>1% Increase</u> <u>7.25%</u>
The Agency's proportionate share of the net pension liability	\$4,513,160	\$3,578,420	\$2,796,516

**County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)**

*OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB.* The Agency reported a liability of \$1,229,023 and \$964,009 at June 30, 2018 and 2017, respectively, for its proportionate share of the net OPEB liability. The total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2016 to the plan's fiscal year ending, June 30, 2017, using generally accepted actuarial principles. The net OPEB liability was measured as of June 30, 2017. The Agency's proportion of the net OPEB liability was based on a projection of their share of contributions to the OPEB plan relative to the total contributions of all participating employers, actuarially determined. At June 30, 2018, the Agency's proportion was 0.061135%.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)**

The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

As a result of its requirement to contribute to the CERS insurance fund, the Agency recognized OPEB expenses of \$140,052 for the year ended June 30, 2018. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on OPEB plan investments	\$ -	\$ 58,083
Difference between expected and actual experience	-	3,414
Changes of assumptions	267,428	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	2,851
Contributions subsequent to the measurement date	<u>82,942</u>	<u>-</u>
<b>TOTALS</b>	<b><u>\$ 350,370</u></b>	<b><u>\$ 64,348</u></b>

Deferred outflows of resources related to OPEB, in the amount of \$82,942 related to OPEB resulting from the Agency's contributions subsequent to the measurement date and before the end of the fiscal year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30</u>	
2019	\$34,942
2020	34,942
2021	34,942
2022	34,942
2023	49,463
Thereafter	13,849

The net OPEB liability as of June 30, 2018, is based on the June 30, 2016, actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. 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. Deferred outflows and inflows related to differences between expected and actual experience, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a period of 6.28 years.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)**

*Actuarial assumptions.* The total OPEB liability, net OPEB liability, and sensitivity information for the actuarial valuation as of June 30, 2017 was based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review, the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017 (a complete list of actuarial assumptions is listed in the Required Supplementary Information section of this report):

Inflation	2.30%
Salary increases, average, including inflation	3.05 %
Investment rate of return, net of OPEB plan investment expense, including inflation	6.25%
Payroll growth rate	2.00%
Municipal bond index rate	
Prior measurement date	2.92%
Measurement date	3.56%
Single equivalent interest rate (discount rate), net of OPEB plan investment expense, including inflation	
Prior measurement date	6.89%
Measurement date	5.84%
Healthcare cost trend rates-Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years (Pre-65). Initial trend rate starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years (Post-65).	

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return on plan assets was determined by using a building block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	2.00%	1.88%
Total	<u>100.00%</u>	

*Discount rate.* The discount rate used to measure the total OPEB liability was 5.84%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The cost associated with the implicit employer subsidy was not included in the calculation of the KRS's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments from the retirement system, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate. There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 75, the single equivalent interest rate at the measurement date of 5.84% was calculated using the Municipal Bond Index Rate as of the measurement date of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 75.

*Sensitivity of the Agency's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the Agency's proportionate share of the net OPEB liability calculated using the discount rate of 5.84%, as well as what the Agency's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current discount rate:

	<u>1% Decrease 4.84%</u>	<u>Current Discount Rate 5.84%</u>	<u>1% Increase 6.84%</u>
The Agency's proportionate share of the net OPEB liability	\$1,563,863	\$1,229,023	\$950,383

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note J - Employee Retirement System (Continued):**

**County Employees' Retirement System Insurance Fund - Postemployment Benefits Other Than Pensions (OPEB)**

*Sensitivity of the Agency's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the Agency's proportionate share of the net OPEB liability, as well as what the Agency's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1%</u> <u>Increase</u>
The Agency's proportionate share of the net OPEB liability	\$942,724	\$1,229,023	\$1,601,195

**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.

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 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, 2018 and 2017, were \$78,272 and \$80,228, 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. The total cost of complying with this Consent Decree is estimated at \$102 million and is expected to be completed over the next 22 years.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note L - Commitments and Contingencies (Continued):**

The following amounts represent either balances remaining on contracts or contracts signed in which no work had been performed at June 30, 2018.

<u>Vendor</u>	<u>Project</u>	<u>Contract Total</u>	<u>Contract Cost-to-Date</u>	<u>Future Commitment</u>
Bacon, Farmer Workman Engineering	Anita Dr. Wet Weather PS	\$ 38,820	\$ 36,159	\$ 2,661
Bacon, Farmer Workman Engineering	Harrison Street Storage Tank (PhI)	9,489	8,590	899
HDR Engineering, Inc.	Massac Ph III Study	22,192	11,096	11,096
HDR Engineering, Inc.	PWWTP Electrical Upgrade	12,500	1,250	11,250
Mott Electric, LLC	PWWTP Electrical Upgrade	264,300	4,500	259,800
Rivercrest Engineering, Inc.	Rehab Contract CY '2018	54,000	2,250	51,750
Layne Inliner, LLC	Rehab Contract CY '2018	902,160	-	902,160
Rick's Electric, Inc.	SCADA Server Upgrade	53,688	51,004	2,684
Robinson Pipe Cleaning	Video & Cleaning Contract 2018	134,579	-	134,579
Rivercrest Engineering, Inc.	Waid Package Plant Removal	<u>18,800</u>	<u>9,210</u>	<u>9,590</u>
		<u>\$1,510,528</u>	<u>\$124,059</u>	<u>\$ 1,386,469</u>

The Agency 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. The project was completed during the year ended June 30, 2016 and was transferred to the City of Paducah during the year ended June 30, 2018. The portion of the project to be donated to the City of Paducah was \$0 and \$759,545 at June 30, 2018 and 2017, respectively, and is recorded in other current assets. Due to the fact that this was donated upon completion, a liability is recorded in other current liabilities for the same amount.

**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, for emergencies, or for rate stabilization in the event of a loss of a 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. Board designated funds amounted to \$3 million as of June 30, 2018 and 2017, respectively, and are included as part of the unrestricted net assets on the statements of net position.

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**Note N - Interest Expense:**

For the years ended June 30, 2018 and 2017, interest expense before adjustment for capitalized construction period interest was \$470,388 and \$469,725, respectively. For the years ended June 30, 2018 and 2017, interest expense of \$23,421 and \$43,108, respectively, was capitalized to the Agency's capital assets accounts.

**Note O - Change in Accounting Principles and Restatement of Beginning Net Position:**

In June 2015, the *Governmental Accounting Standards Board (GASB)* issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaces GASB Statement No. 45. The new standard addresses several issues regarding Postemployment Benefits Other Than Pensions, 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, 2017. The new standard requires the Agency to report its proportionate share of the total net postemployment benefits other than pensions (OPEB) liability which consists of the insurance portion of the County Employees' Retirement System Plan as a liability on the statement of net position and to recognize the appropriate expense on the statement of revenues, expenses, and changes in net position. The standard also requires the deferral of changes in the net OPEB liability and amortization of those changes over set periods.

The Agency's proportionate share of the net OPEB liability and deferred outflows at July 1, 2017 was \$964,009 and \$78,118, respectively. Beginning net position at July 1, 2017 has been adjusted to reflect this.

Net position July 1, 2017, as previously stated		\$56,037,817
Proportionate share of net OPEB liabilities	\$ (964,009)	
Deferred outflows		
Contributions made after the measurement date	<u>78,118</u>	
Adjustments to net position		<u>(885,891)</u>
<b>NET POSITION JULY 1, 2017, AS RESTATED</b>		<b><u>\$55,151,926</u></b>

The net position at June 30, 2016 and related deferred outflows and inflows could not be determined in a practical manner. Therefore, net position at June 30, 2016 has not been restated and is presented based on previous guidance under GASB Statement No. 45.

**Note P - Subsequent Events:**

Management has evaluated subsequent events through October 11, 2018, the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PADUCAH MCCRACKEN JOINT SEWER AGENCY**  
**SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE**  
**NET PENSION LIABILITY**  
**COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)**  
**LAST FOUR FISCAL YEARS\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.061135%	0.06150%	0.06322%	0.06460%
Employer's proportionate share of the net pension liability (asset)	\$ 3,578,420	\$ 3,028,183	\$ 2,717,993	\$ 2,096,632
Employer's covered payroll	1,486,264	\$ 1,465,240	\$ 1,473,428	\$ 1,482,568
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	240.77%	206.67%	184.47%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%

\* 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.

**Notes to Schedule**

The total pension liability and net pension liability as of June 30, 2018, is based on the June 30, 2016 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date	June 30, 2016
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth	2.00%
Salary increase	3.05%, average
Investment rate of return	6.25%, net of pension plan investment expense, including inflation
Mortality:	For active members: RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries: RP 2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). For disabled members: RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years).
Changes of benefit terms:	None.
Changes of assumptions:	The investment rate of return was decreased from 7.50% to 6.25%. The price inflation assumption was decreased from 3.25% to 2.30%. The payroll growth rate assumption was decreased from 4.00% to 2.00%. The salary increase assumption decreased from 4.00% to 3.05%, average. The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

NOTE: This schedule is based on the last measurement date of the net pension liability.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 209,257	\$ 207,334	\$ 181,983	\$ 188,741	\$ 203,705
Contributions in relation to the contractually required contribution	<u>209,257</u>	<u>207,334</u>	<u>181,983</u>	<u>188,741</u>	<u>203,705</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 1,445,142	\$ 1,486,264	\$ 1,465,240	\$ 1,473,428	\$ 1,482,568
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.75%	13.74%

\* 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.

See accompanying notes to the basic financial statements.

No assurance is provided on these financial statements.

**PADUCAH MCCRACKEN JOINT SEWER AGENCY  
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE  
NET POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY  
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS) INSURANCE FUND  
FISCAL YEAR ENDED JUNE 30, 2018\***

	<b>2018</b>
Employer's proportion of the net OPEB liability (asset)	0.06114%
Employer's proportionate share of the net OPEB liability (asset)	\$ 1,229,023
Employer's covered-employee payroll	\$ 1,486,264
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	82.69%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

\* 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.

**Notes to Schedule**

The total OPEB liability and net OPEB liability as of June 30, 2018, is based on the June 30, 2016 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2017 using generally accepted actuarial principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date	June 30, 2016
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll growth:	2.00%
Salary increase	3.05%, average
Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation
Mortality:	For active members: RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries: RP 2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). For disabled members: RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years).
Healthcare trend rates:	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years (Pre-65). Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years (Post-65).
Changes of benefit terms:	None.
Changes of assumptions:	The investment rate of return was decreased from 7.50% to 6.25%. The price inflation assumption was decreased from 3.25% to 2.30%. The payroll growth rate assumption was decreased from 4.00% to 2.00%. The salary increase assumption decreased from 4.00% to 3.05%, average. The single discount rate for non-hazardous changed from 6.89% to 5.84%. The municipal bond rate increased from 2.92% to 3.56%. Healthcare trend rates were changed as noted above. The assumed rates of retirement, withdrawal, disability, and medical cost inflation were updated to more accurately reflect experience.

NOTE: This schedule is based on the last measurement date of the net OPEB liability.

**PADUCAH MCCRACKEN JOINT SEWER AGENCY  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS) INSURANCE FUND  
 LAST TWO FISCAL YEARS\***

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 67,922	\$ 70,300
Contributions in relation to the contractually required contribution	<u>67,922</u>	<u>70,300</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 1,445,142	\$ 1,486,264
Contributions as a percentage of covered-employee payroll	4.70%	4.73%

\* 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. Contractually required contributions do not include the expected implicit subsidy included in the calculation of the net OPEB liability.

See accompanying notes to the basic financial statements.  
 No assurance is provided on these financial statements.

**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, 2018**

	<b>Original and Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Operating Revenues:</b>			
Charges for services	<u>\$ 8,833,950</u>	<u>\$9,142,934</u>	<u>\$ 308,984</u>
<b>Operating Expenses:</b>			
Salaries, wages and benefits	2,381,945	2,590,023	(208,078)
Chemicals, testing, and solids disposal	408,500	409,278	(778)
Utilities	796,600	801,863	(5,263)
Materials, supplies, and repairs	466,100	463,618	2,482
Fleet expense	81,500	104,132	(22,632)
Liability insurance	132,000	130,619	1,381
Training, safety, and dues	33,250	39,437	(6,187)
Professional fees	97,450	82,387	15,063
Office expense	15,400	11,052	4,348
Public education	1,000	2,659	(1,659)
Billing and collections	142,000	138,899	3,101
Bad debts	70,400	67,282	3,118
Board of Directors expense	16,800	16,800	-
Miscellaneous	17,700	16,663	1,037
Depreciation	<u>2,900,000</u>	<u>2,847,493</u>	<u>52,507</u>
Total operating expenses	<u>7,560,645</u>	<u>7,722,205</u>	<u>(161,560)</u>
Operating income	<u>1,273,305</u>	<u>1,420,729</u>	<u>147,424</u>
<b>Non-operating Revenues (Expenses):</b>			
Investment revenue	75,000	147,579	72,579
Interest expense	(485,000)	(446,968)	38,032
Amortization	(5,800)	(5,750)	50
Gain (loss) on sale of assets	-	5,542	5,542
Tap-on and assessment fees	294,000	223,310	(70,690)
Other, net	<u>(65,300)</u>	<u>(61,747)</u>	<u>3,553</u>
Total non-operating revenues (expenses), net	<u>(187,100)</u>	<u>(138,034)</u>	<u>49,066</u>
Change in net position before capital contributions	<u>1,086,205</u>	<u>1,282,695</u>	<u>196,490</u>
<b>Capital Contributions:</b>			
Grant revenue	-	4,500	4,500
Contributed capital	<u>-</u>	<u>76,740</u>	<u>76,740</u>
Total capital contributions	<u>1,086,205</u>	<u>81,240</u>	<u>81,240</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u><u>\$ 1,086,205</u></u>	<u><u>\$1,363,935</u></u>	<u><u>\$ 277,730</u></u>

See independent auditor's report.



# WILLIAMS WILLIAMS & LENTZ

CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III  
Sue Cronch-Greenwell  
Roger G. Harris  
Michael F. Karnes

Mark A. Thomas  
Ashley C. Grooms  
Kelly D. Scruggs  
Benjamin D. Teer

**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***

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, 2018, 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 11, 2018.

### **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 opinion 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 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.

*Williams, Williams & Lentz, LLP*

Paducah, Kentucky  
October 11, 2018



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