

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

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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, 2019 and 2018, 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 opinions.

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, 2019 and 2018, and the respective 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 31 - 34 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 supplementary information on pages 35 - 37 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary comparison information on page 37 and the schedule of expenditures of federal awards on pages 35 - 36 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the 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 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, 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 effectiveness of Paducah McCracken Joint Sewer Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paducah McCracken County Joint Sewer Agency's internal control over financial reporting and compliance.

Williams, Williams & Lentz, LLP

Paducah, Kentucky
October 16, 2019



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, 2019.

Financial Highlights

- Net capital assets increased \$5.6 million (8.30%) over prior FY
- Total net position increased \$1.5 million during the year
- Operating revenues up \$50 thousand (0.50%) over FY 2018
- Debt service coverage ratio above level of compliance at 2.75 for FY 2019

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)

	FYE 06/30/19	FYE 06/30/18	Dollar Change	Percent Change
Assets				
Current assets	\$12,537	\$12,978	\$ (441)	-3.40%
Capital assets	72,995	67,383	5,612	8.30%
Restricted funds	1,688	1,178	510	43.30%
Deferred charges & other noncurrent assets	2,889	2,021	868	42.90%
Total assets	<u>90,109</u>	<u>83,560</u>	<u>6,549</u>	7.80%
Deferred Outflows of Resources	<u>1,157</u>	<u>1,508</u>	<u>(351)</u>	-23.30%
Liabilities & net position				
Current liabilities	2,913	1,832	1,081	59.00%
Noncurrent liabilities	29,707	26,284	3,423	13.00%
Total liabilities	<u>32,620</u>	<u>28,116</u>	<u>4,504</u>	16.00%
Deferred Inflows of Resources	<u>604</u>	<u>437</u>	<u>167</u>	38.30%
Invested in capital assets, net	46,616	44,748	1,868	4.20%
Restricted	1,688	1,178	510	43.30%
Unrestricted	9,737	10,590	(853)	-8.10%
Total net position	<u>\$58,041</u>	<u>\$56,516</u>	<u>\$1,525</u>	2.70%

Capital Assets and Long-Term Debt Activity

Net capital assets increased by \$5.6 million during FY 2019. At the close of the current fiscal year, JSA had over \$107 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 completed construction on the Reidland Above Ground Storage Tank having drawn \$2.2 million against a current Kentucky Infrastructure Authority (KIA) loan. Two additional overflow storage tanks were either in the planning stages or nearing completion as of June 30, 2019. 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 2019 by \$4.5 million or 16.00% over FY 2018.

The JSA's total net position increased by \$1.5 million or 2.70% during FY 2019. Net capital assets less total debt increased by \$1.8 million, but were offset by the \$853 thousand decrease in unrestricted assets.

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

	<u>06/30/19</u>	<u>06/30/18</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenue				
Operating revenues	\$9,193	\$9,143	\$ 50	0.5%
Non-operating revenues	476	376	100	26.4%
Total revenues	<u>9,669</u>	<u>9,519</u>	<u>150</u>	1.6%
Expenses				
Depreciation	2,905	2,847	58	2.0%
Operating expenses	4,828	4,875	(47)	-0.9%
Non-operating expenses	499	514	(15)	-2.9%
Total expenses	<u>8,232</u>	<u>8,236</u>	<u>(4)</u>	0.0%
Contributions	<u>90</u>	<u>81</u>	<u>9</u>	10.2%
Change in net position	1,525	1,364	161	11.8%
Beginning net position, adjusted	<u>56,516</u>	<u>55,152</u>	<u>1,364</u>	2.5%
Ending net position	<u>\$58,041</u>	<u>\$56,516</u>	<u>\$1,525</u>	2.7%

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 2019 finished \$50 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 \$278 thousand more than budgeted for FY 2019. Operating expenses came in over budget for the fiscal year finishing \$82 thousand above estimate. This is primarily due to the new pension and insurance reporting requirement mandated by GASB, which were unknown and not reasonable to estimate, during the development of the operating budget.

JSA received \$90 thousand in capital contributions during the fiscal year. These contributions came in the forms of grant revenue of \$5 thousand and developer non-cash contributions of \$85 thousand.

Results of Operations

Total revenues of \$9.2 million, showed an increase of \$50 thousand or 0.50% from FY 2018. Total expenses decreased \$4 thousand from FY 2018.

EXHIBIT 3: Detail of Operating Expenses (Excluding Depreciation)

Operating Expenses (in thousands)	06/30/19	06/30/18	Dollar Change	Percent Change
Salaries, wages and benefits	\$2,512	\$2,590	\$(78)	-3.00%
Chemicals, testing, & solid disposal	440	409	31	7.50%
Utilities	886	802	84	10.50%
Material, supplies and repairs	398	464	(66)	-14.20%
Fleet expense	102	104	(2)	-2.20%
Professional fees	73	82	(9)	-11.00%
Billing, collection and bad debts	202	206	(4)	-1.90%
All other	216	217	(1)	-0.60%
Total	\$4,829	\$4,874	\$(45)	-0.90%

Salaries, Wages and Benefits

Salaries, wages and benefits comprise the bulk of operating expenses. These expenses decreased 3.00% over FY 2018. However, there was a nominal net increase in salaries, wages and overtime of \$12 thousand. The JSA recorded a \$306 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 2019 and 2018.

Other Operating Expenses

Chemicals, testing and solids disposal showed a \$31 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 2018 and FY 2019, JSA experienced higher costs associated with sending sludge to landfill. 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. Costs related to solid disposals increased \$56 thousand or 30.00% over the prior year.

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 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. Additionally, electrical costs can vary based on wet weather. During FY 2019, Paducah experienced one year's average rainfall in six months, causing higher electrical costs to pump and treat the excessive rainfall.

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 \$66 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 2019 compared to the prior fiscal year. Repairs were made as follows:

EXHIBIT 4: Repairs by Department (in thousands)

Department	06/30/19	06/30/18	Dollar Change	Percent Change
Collection System (pipes)	\$102	\$201	\$(99)	-49.30%
Lift Stations (pipes & pumps)	71	40	31	77.40%
Treatment Plants (pipes, pumps & motors)	39	44	(5)	-11.30%
Total	\$212	\$285	\$(73)	-25.60%

Fleet expense decreased \$2 thousand, or 2.20%, 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 2019 professional fees were \$9 thousand less than in FY 2018. 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 decrease for FY 2019; in total, professional fees were \$22 thousand below budget

Paducah Water provides billing and collection services for the JSA. Bad debt write-offs finished as expected at \$63 thousand, or \$7 thousand below budget.

All other expenses totaled \$216 thousand for FY 2019 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 \$223 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 2.75 in 2019 and 2.85 in 2018.

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. Beginning July 1, 2019, JSA implemented a 2.00% Consumer Price Index - Urban (CPI-U) rate adjustment. JSA has built-in the ability to adjust rates by the 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 \$10.45 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>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 6,874,671	\$ 4,847,737
Investments and accrued interest	4,029,623	6,468,860
Customer accounts receivable	502,062	526,246
Grants and other receivables	30,156	24,173
Accrued unbilled revenue	752,000	770,000
Inventories and prepaid expenses	348,686	341,246
	<u>12,537,198</u>	<u>12,978,262</u>
Noncurrent Assets:		
Utility plant and capital assets, net	72,994,550	67,383,017
Investments	2,851,074	1,977,784
Restricted assets and investments	1,688,194	1,178,303
Bond discount - net	35,800	41,260
Other noncurrent assets	1,800	1,800
	<u>77,571,418</u>	<u>70,582,164</u>
TOTAL ASSETS	<u>90,108,616</u>	<u>83,560,426</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension plan outflows	858,445	1,157,417
Deferred other postemployment benefit plan outflows	298,225	350,370
	<u>1,156,670</u>	<u>1,507,787</u>

LIABILITIES

Current Liabilities:		
Notes and bonds payable	1,269,074	1,159,083
Accounts payable	1,386,352	442,542
Salaries and benefits payable	106,399	93,789
Other current liabilities	151,374	136,366
	<u>2,913,199</u>	<u>1,831,780</u>
Noncurrent Liabilities:		
Notes and bonds payable	25,109,214	21,476,241
Net pension liability	3,559,844	3,578,420
Net other postemployment benefit plan liability	1,037,750	1,229,023
	<u>29,706,808</u>	<u>26,283,684</u>
TOTAL LIABILITIES	<u>32,620,007</u>	<u>28,115,464</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension plan inflows	365,175	372,540
Deferred other postemployment benefit plan inflows	238,937	64,348
	<u>604,112</u>	<u>436,888</u>

NET POSITION

Invested in capital assets, net of related debt	46,616,262	44,747,693
Restricted for debt service	1,688,194	1,178,303
Unrestricted - net assets	9,736,711	10,589,865
TOTAL NET POSITION	<u>\$ 58,041,167</u>	<u>\$ 56,515,861</u>

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>2019</u>	<u>2018</u>
Operating Revenues:		
Charges for services	<u>\$ 9,192,706</u>	<u>\$ 9,142,934</u>
Operating Expenses:		
Salaries, wages and benefits	2,511,832	2,590,023
Chemicals, testing, and solids disposal	439,942	409,278
Utilities	885,821	801,863
Materials, supplies, and repairs	397,614	463,618
Fleet expense	101,856	104,132
Liability insurance	125,249	130,619
Training, safety, and dues	36,013	39,437
Professional fees	73,356	82,387
Office expense	17,037	11,052
Public education	6,613	2,659
Billing and collections	139,305	138,899
Bad debts	62,863	67,282
Board of directors expense	16,800	16,800
Miscellaneous	14,161	16,663
Depreciation	<u>2,905,060</u>	<u>2,847,493</u>
 Total operating expenses	 <u>7,733,522</u>	 <u>7,722,205</u>
 Operating income	 <u>1,459,184</u>	 <u>1,420,729</u>
Non-operating Revenues (Expenses):		
Investment revenue	291,206	147,579
Interest expense	(433,303)	(446,968)
Amortization	(5,460)	(5,750)
Gain (loss) on sale of assets	-	5,542
Tap-on and assessment fees	184,708	223,310
Other, net	<u>(60,529)</u>	<u>(61,747)</u>
 Total non-operating revenues (expenses), net	 <u>(23,378)</u>	 <u>(138,034)</u>
 Change in net position before capital contributions	 <u>1,435,806</u>	 <u>1,282,695</u>
Capital Contributions:		
Grant revenue	4,500	4,500
Contributions from developers	<u>85,000</u>	<u>76,740</u>
 Total capital contributions	 <u>89,500</u>	 <u>81,240</u>
 Change in net position	 1,525,306	 1,363,935
Net position, beginning	56,515,861	56,037,817
Adjustment to net position, see note O	<u>-</u>	<u>(885,891)</u>
 Net position, beginning, as restated	 <u>56,515,861</u>	 <u>55,151,926</u>
 NET POSITION, ENDING	 <u><u>\$58,041,167</u></u>	 <u><u>\$56,515,861</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>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Collections from customers	\$ 9,169,622	\$ 8,856,771
Cash paid to suppliers	(1,983,187)	(2,219,087)
Cash paid to employees	(2,194,308)	(2,164,764)
	<u>4,992,127</u>	<u>4,472,920</u>
Cash Flows from Capital and Related Financing Activities:		
Grants and contributed capital	4,500	4,500
Tap-on fees and assessments	184,708	223,310
Acquisition of capital assets	(7,707,718)	(4,433,719)
Proceeds from the sale of fixed assets	-	6,246
Proceeds from debt issues	4,947,969	2,132,673
Principal payments on long-term debt	(1,205,005)	(1,132,453)
Interest payments on long-term debt	(476,380)	(471,705)
(Increase)/decrease in other noncurrent assets	-	239
Other, net	(60,529)	(61,747)
	<u>(4,312,455)</u>	<u>(3,732,656)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	7,919,771	5,860,944
Purchases of investments	(6,819,472)	(8,456,429)
Investment earnings	246,963	149,916
	<u>1,347,262</u>	<u>(2,445,569)</u>
Net increase (decrease) in cash and cash equivalents	2,026,934	(1,705,305)
Cash and cash equivalents, beginning of year	<u>4,847,737</u>	<u>6,553,042</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 6,874,671</u></u>	<u><u>\$ 4,847,737</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 1,459,184	\$ 1,420,729
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,905,060	2,847,493
Changes in operating assets and liabilities:		
Accounts receivable	18,201	(94,888)
Accrued unbilled revenue	18,000	(119,000)
Inventory and prepaid expenses	(7,440)	(12,156)
Deferred outflows of resources	351,117	(842,136)
Accounts payable	266,093	32,175
Salaries and benefits payable	12,610	(110)
Other current liabilities	11,927	(21,705)
Net pension liability	(209,849)	893,369
Deferred inflows of resources	167,224	369,149
	<u>4,992,127</u>	<u>4,472,920</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 4,992,127</u></u>	<u><u>\$ 4,472,920</u></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, 2019 AND 2018

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, 2019 AND 2018

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, 2018 financial statements to make them conform to the June 30, 2019 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, 2019 AND 2018**

Note B - Restricted Assets and Investments (Continued):

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

	<u>2019</u>	<u>2018</u>
Certificates of deposit - various financial institutions	\$1,152,088	\$ 397,053
U.S. Government money market funds	536,106	781,250
TOTALS	\$1,688,194	\$1,178,303

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, 2019 and 2018, 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 \$14,974,590 and \$13,215,138, respectively, at June 30, 2019 and 2018, with \$34,527 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, 2019 AND 2018

Note D - Construction in Progress:

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

	<u>2019</u>	<u>2018</u>
Anita Drive Pump Station Capacity Evaluation	\$ -	\$ 57,074
Chickadee Lift Station Elimination Project	11,368	11,368
Harrison Street Storage Tank	6,067,759	689,292
Harrison Street PS Renovation / Collection System Upgrade	7,269	744
Massac Creek Phase III Design / Construction	263,087	42,069
Great Oaks	963	-
Video Contract CY' 19	4,125	-
Olivet Church Road/Rebecca Lane Extension	-	52,696
Perkins Creek Lift Station Rehabilitation	-	6,250
Perkins Creek Tank Engineering	495,953	53,919
PWWTP Electrical Upgrade	396,607	127,215
Rehab Contract CY '18	-	20,728
Rehab Contract CY' 19	19,590	-
Reidland Above Ground Storage Tank	-	2,216,355
Ken Lane Lift Station	8,189	-
WWTP Blower Replacement	7,375	-
SCADA Server Upgrade	-	53,688
Video and Cleaning Contract 2018	-	16,945
Quail Run Force Main	13,585	-
Waid Package Plant Removal	316,883	41,349
RWWTP Oxidation Ditch Bearings Replacement	<u>38,208</u>	<u>-</u>
TOTALS	<u>\$7,650,961</u>	<u>\$3,389,692</u>

Construction in progress related invoices of \$839,849 and \$162,132 were included in accounts payable at June 30, 2019 and 2018, respectively.

Note E - Capital Assets:

Capital assets consists of the following at June 30:

	<u>2019</u>			
	<u>Balance as of</u>			<u>Balance as of</u>
	<u>June 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Capital assets, not being depreciated:				
Land	\$ 979,636	\$ 50,192	\$ -	\$ 1,029,828
Construction in progress	<u>3,389,692</u>	<u>8,301,471</u>	<u>4,040,202</u>	<u>7,650,961</u>
 Total capital assets not being depreciated	 <u>4,369,328</u>	 <u>8,351,663</u>	 <u>4,040,202</u>	 <u>8,680,789</u>

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note E - Capital Assets (Continued):

	2019			Balance as of June 30, 2019
	Balance as of June 30, 2018	Increases	Decreases	
Capital assets, being depreciated:				
Utility assets (pipes, pumps, plants, structures)	\$ 98,039,453	\$ 3,966,902	\$ -	\$102,006,355
Vehicles	1,483,578	53,798	-	1,537,376
General plant and office furniture	<u>3,951,654</u>	<u>184,433</u>	<u>-</u>	<u>4,136,087</u>
Totals at historical cost	<u>103,474,685</u>	<u>4,205,133</u>	<u>-</u>	<u>107,679,818</u>
Less accumulated depreciation:				
Utility assets	37,004,272	2,489,962	-	39,494,234
General plant and office furniture	2,422,847	234,561	-	2,657,408
Vehicles	<u>1,033,877</u>	<u>180,538</u>	<u>-</u>	<u>1,214,415</u>
Total accumulated depreciation	<u>40,460,996</u>	<u>2,905,061</u>	<u>-</u>	<u>43,366,057</u>
Total capital assets, being depreciated, net	<u>63,013,689</u>	<u>1,300,072</u>	<u>-</u>	<u>64,313,761</u>
TOTAL SYSTEM CAPITAL ASSETS - NET	<u>\$ 67,383,017</u>	<u>\$ 9,651,735</u>	<u>\$ 4,040,202</u>	<u>\$ 72,994,550</u>
	2018			
	Balance as of June 30, 2017	Increases	Decreases	Balance as of June 30, 2018
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>
Capital assets, being depreciated:				
Utility assets (pipes, pumps, plants, structures)	\$ 96,307,857	\$ 1,735,042	\$ 3,446	\$ 98,039,453
Vehicles	1,448,777	49,423	14,622	1,483,578
General plant and office furniture	<u>3,767,144</u>	<u>184,510</u>	<u>-</u>	<u>3,951,654</u>
Totals at historical cost	<u>101,523,778</u>	<u>1,968,975</u>	<u>18,068</u>	<u>103,474,685</u>
Less accumulated depreciation:				
Utility assets	34,557,291	2,449,726	2,745	37,004,272
General plant and office furniture	2,199,103	223,744	-	2,422,847
Vehicles	<u>874,474</u>	<u>174,024</u>	<u>14,621</u>	<u>1,033,877</u>
Total accumulated depreciation	<u>37,630,868</u>	<u>2,847,494</u>	<u>17,366</u>	<u>40,460,996</u>
Total capital assets, being depreciated, net	<u>63,892,910</u>	<u>(878,519)</u>	<u>702</u>	<u>63,013,689</u>
TOTAL SYSTEM CAPITAL ASSETS - NET	<u>\$ 65,713,831</u>	<u>\$ 3,075,160</u>	<u>\$ 1,405,974</u>	<u>\$ 67,383,017</u>

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note F - Notes and Bonds Payable:

Notes and bonds payable consists of the following:

	2019	2018
Notes Payable:		
Kentucky Infrastructure Authority	\$19,149,788	\$15,097,324
Bonds Payable:		
Sewer Revenue Bonds, Series 2012	3,938,500	4,008,000
Sewer Revenue Refunding Bonds, Series 2014	3,290,000	3,530,000
	26,378,288	22,635,324
Less current maturities	1,269,074	1,159,083
	\$25,109,214	\$21,476,241

During the year ended June 30, 2019, the Agency made the final draw of \$510,013 on a \$2,188,031 note payable to Kentucky Infrastructure Authority.

During the year ended June 30, 2019, the Agency also made three draws totaling \$4,437,956 on a \$9,100,000 note payable to Kentucky Infrastructure Authority. Payments made on the note are interest only until the full amount of the note has been drawn.

Debt service requirements on notes payable at June 30, 2019, are as follows:

Years Ending	Service			Total
June 30	Principal	Interest	Fee	Total
2020	\$ 957,074	\$ 337,219	\$ 28,947	\$ 1,323,240
2021	1,160,392	326,269	27,025	1,513,686
2022	1,180,326	306,436	25,070	1,511,832
2023	1,250,289	301,541	24,841	1,576,671
2024	1,183,940	264,605	20,959	1,469,504
2025-2029	5,630,543	1,016,257	76,552	6,723,352
2030-2034	5,145,782	500,327	32,361	5,678,470
2035-2039	2,380,769	116,245	3,566	2,500,580
Thereafter	260,673	3,439	-	264,112
TOTALS	\$19,149,788	\$ 3,172,338	\$ 239,321	\$22,561,447

Debt service requirements on bonds payable at June 30, 2019, are as follows:

Years Ending	Service			Total
June 30	Principal	Interest	Fee	Total
2020	\$ 312,000	\$ 197,709	\$ -	\$ 509,709
2021	319,000	190,929	-	509,929
2022	326,500	183,994	-	510,494
2023	334,000	176,265	-	510,265
2024	341,500	167,718	-	509,218
2025-2029	1,870,500	687,501	-	2,558,001
2030-2034	1,148,000	426,883	-	1,574,883
2035-2039	619,000	321,379	-	940,379
2040-2044	726,500	230,574	-	957,074
2045-2049	853,000	123,901	-	976,901
Thereafter	378,500	15,661	-	394,161
TOTALS	\$ 7,228,500	\$ 2,722,514	\$ -	\$ 9,951,014

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note F - Notes and Bonds Payable (Continued):

Notes payable are secured by capital assets and restricted funds. At June 30, 2019, the above notes are payable to Kentucky Infrastructure Authority and are payable in semi-annual installments, including interest ranging from 1.00% to 2.00%. 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. There are no terms specified in the debt agreements as to significant events of default or termination events with finance-related consequences. There are no acceleration clauses.

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.

Notes and bonds payable activity for the year ended June 30, 2019, 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	\$ 7,538,000	\$ -	\$ 309,500	\$ 7,228,500	\$ 312,000
Notes payable	<u>15,097,324</u>	<u>4,947,969</u>	<u>895,505</u>	<u>19,149,788</u>	<u>957,074</u>
TOTAL LONG-TERM LIABILITIES	<u>\$22,635,324</u>	<u>\$ 4,947,969</u>	<u>\$ 1,205,005</u>	<u>\$26,378,288</u>	<u>\$ 1,269,074</u>

Note G - Contributed Capital:

For the years ended June 30, 2019 and 2018, the Agency accepted \$85,000 and \$76,740, 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>2019</u>	<u>2018</u>
Non-cash investing and financing transactions received during the years ended June 30 were as follows:		
Developer contributions	\$85,000	\$76,740
Undepreciated costs of assets disposed	\$ -	\$ 704

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.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note I - Risk Management (Continued):

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.

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 5.00% of their annual creditable compensation. Plan members who began participating on or after September 1, 2008 are required to contribute an additional 1.00% 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 21.48% for the year ended June 30, 2019. The required contribution rate for fiscal years ending June 30, 2018 and 2017 is 19.18% and 18.68% respectively. The contribution rate is a combined rate for both the pension plan and the Insurance Fund. For the fiscal year ended June 30, 2019, the pension portion was 16.22% and the Insurance Fund portion was 5.26%. The percentages were 14.48% and 4.70% for the

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note J - Employee Retirement System (Continued):

fiscal year ended June 30, 2018, and the percentages were 13.95% and 4.73% for the fiscal year ended June 30, 2017. The pension contributions for fiscal years ended June 30, 2019, 2018 and 2017 were \$228,898, \$209,257 and \$207,334, respectively. The insurance contributions for fiscal years ended June 30, 2019, 2018 and 2017 were \$74,230, \$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.

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 \$3,559,844 and \$3,578,420 at June 30, 2019 and 2018, respectively, for its proportionate share of the net pension liability. The June 30, 2019 total pension liability was rolled-forward from the actuarial valuation date of June 30, 2017 to the plan's fiscal year ending, June 30, 2018, using generally accepted actuarial principles. The June 30, 2018 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, 2019 and 2018, the Agency's proportion was 0.058451% and 0.061135%.

As a result of its requirement to contribute to CERS, the Agency recognized pension expense of \$502,445 and \$572,839 for the year ended June 30, 2019 and 2018, respectively. At June 30, 2019, 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:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net difference between projected and actual earnings on plan investments	\$ 165,535	\$ 208,220
Difference between expected and actual experience	116,112	52,109
Changes of assumptions	347,900	-
Change in proportion and differences between employer contributions and proportionate share of contributions	-	104,846
Contributions subsequent to the measurement date	<u>228,898</u>	<u>-</u>
TOTALS	<u>\$ 858,445</u>	<u>\$ 365,175</u>

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:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
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>
TOTALS	<u>\$1,157,417</u>	<u>\$ 372,540</u>

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

Note J - Employee Retirement System (Continued):

County Employees' Retirement System Pension Fund

Deferred outflows of resources in the amount of \$228,898 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, 2020. 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>	
2020	\$238,230
2021	103,786
2022	(58,537)
2023	(19,107)

The net pension liability as of June 30, 2019, is based on the June 30, 2017, actuarial valuation as rolled forward to the plan's fiscal year end June 30, 2018 using generally accepted actuarial principles. 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 that represents the weighted average of the remaining service life of active and inactive members of the plan (3.46 years and 3.50 years for plan year ends June 30, 2018 and June 30, 2017, respectively).

Actuarial assumptions. The total pension liability, net pension liability, and sensitivity information for the actuarial valuation as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2017), 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, 2018 (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 total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

- Inflation - 2.30%
- 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%

There was a change in benefit terms from the plans fiscal year ending June 30, 2017 to the fiscal year ending June 30, 2018 as a result of House Bill 185 which updated the provisions for active members who die in the line of duty. Benefits paid to spouses of deceased members increased from 25.00% of the member's final rate of pay to 75.00% of the member's average pay. If there is no surviving spouse, the benefits to surviving dependent children increased from 10.00% of the member's final pay to 50.00% of average pay for one child, 65.00% of average pay for two children, or 75.00% of average pay for three children.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note J - Employee Retirement System (Continued):

County Employees' Retirement System Pension Fund

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50.00% for males and 30.00% 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 preceding mortality tables were used in both the June 30, 2018 and 2017 actuarial calculations.

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. For the June 30, 2018 actuarial calculation, 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 Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash Equivalent	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note J - Employee Retirement System (Continued):

County Employees' Retirement System Pension Fund

For the June 30, 2017 actuarial calculation, 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	<u>2.00%</u>	1.88%
Total	<u>100.00%</u>	

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

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 25 year (closed) 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.

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>1.00% Decrease 5.25%</u>	<u>Current Discount Rate 6.25%</u>	<u>1.00% Increase 7.25%</u>
The Agency's proportionate share of the net pension liability	\$4,481,475	\$3,559,844	\$2,787,679

Payables to the pension plan. At June 30, 2019 and 2018, the financial statements include no payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net pension liability.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note J - Employee Retirement System (Continued):

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 \$1,037,750 and \$1,229,023 at June 30, 2019 and 2018, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability at June 30, 2019 and 2018 was measured as of June 30, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 and 2016, respectively. For the June 30, 2019 measurement, the total OPEB liability was rolled-forward from the actuarial valuation date of June 30, 2017 to the plan's fiscal year ending June 30, 2018 using generally accepted actuarial principles. For the June 30, 2018 measurement, 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 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, 2019 and 2018, the Agency's proportion was 0.058449% and 0.061135%.

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 \$123,964 and \$140,052 for the years ended June 30, 2019 and 2018.

At June 30, 2019, 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	\$ -	\$ 71,481
Difference between expected and actual experience	-	120,936
Changes of assumptions	207,254	2,398
Change in proportion and differences between employer contributions and proportionate share of contributions	-	44,122
Contributions subsequent to the measurement date	<u>90,971</u>	<u>-</u>
TOTALS	<u>\$298,225</u>	<u>\$238,937</u>

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>
TOTALS	<u>\$350,370</u>	<u>\$ 64,348</u>

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note J - Employee Retirement System (Continued):

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

Deferred outflows of resources related to OPEB, in the amount of \$90,971 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended	
<u>June 30</u>	
2020	\$ (4,735)
2021	(4,735)
2022	(4,735)
2023	9,147
2024	(17,426)
Thereafter	(9,199)

The net OPEB liability as of June 30, 2019, is based on the June 30, 2017, actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2018 using generally accepted actuarial principles. 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 that represents the weighted average of the remaining service life of active and inactive members of the plan (6.30 years and 6.28 years for plan year ends June 30, 2018 and June 30, 2017, respectively).

Actuarial assumptions. The total OPEB liability, net OPEB liability, and sensitivity information for the actuarial valuation as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2017), 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, 2018 (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	3.56%
Measurement date	3.62%
Single equivalent interest rate (discount rate), net of OPEB plan investment expense, including inflation	
Prior measurement date	5.84%
Measurement date	5.85%
Healthcare cost trend rates - Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years (Pre-65). Initial trend rate starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years (Post-65).	

(Continued)

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2019 AND 2018**

Note J - Employee Retirement System (Continued):

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

The following updated actuarial assumptions were used in performing the actuarial valuation as of June 30, 2017:

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).

There was a change in benefit terms from the plan's fiscal year ending June 30, 2017 to the fiscal year ending June 30, 2018 as a result of House Bill 185 which updated the provisions to now pay 100.00% of the insurance premium for spouses and children of all active members who die in the line of duty.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50.00% for males and 30.00% 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. For the June 30, 2018 actuarial calculation, 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, 2019 AND 2018

Note J - Employee Retirement System (Continued):

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash Equivalent	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	

For the June 30, 2017 actuarial calculation, the target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	<u>2.00%</u>	1.88%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 5.85% and 5.84% at June 30, 2018 and 2018, respectively. 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 25 year (closed) 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

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

Note J - Employee Retirement System (Continued):

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

measurement date to the measurement date, so as required under GASB 75, the single equivalent interest rate at the measurement date of 6.25% 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, 2018. 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 5.85%, 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 (4.85%) or 1-percentage-point higher (6.85%) than the current discount rate:

	1.00% Decrease 4.85%	Current Discount Rate 5.85%	1.00% Increase 6.85%
The Agency's proportionate share of the net OPEB liability	\$1,347,871	\$1,037,750	\$ 773,584

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:

	1.00% Decrease	Current Trend Rate	1.00% Increase
The Agency's proportionate share of the net OPEB liability	\$ 772,615	\$1,037,750	\$1,350,268

Payables to the OPEB plan. At June 30, 2019 and 2018, the financial statements include no payables to CERS. These are legally required contributions to the plan. These amounts are not accounted for in the net OPEB liability.

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 25.00% of eligible compensation, not to exceed the statutory limits, currently \$19,000.

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, 2019 and 2018, were \$74,751 and \$78,272, 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, 2019 AND 2018**

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, 2019.

<u>Vendor</u>	<u>Project</u>	<u>Contract Total</u>	<u>Contract Cost-to-Date</u>	<u>Future Commitment</u>
CROM, LLC	Harrison Street Storage Tank (PhI)	\$6,700,000	\$4,838,493	\$1,861,507
HDR Engineering, Inc.	Massac Ph III Study	156,860	133,331	23,529
HDR Engineering, Inc.	WWTP Blower Replacement	14,750	7,375	7,375
HDR Engineering, Inc.	Rehab Contract CY '2019	19,601	1,960	17,641
GRW Engineering	Perkins Creek Tank	190,790	177,435	13,355
GRW Engineering	Video & Cleaning Contract 2019	16,500	4,125	12,375
Mott Electric, LLC	PWWTP Electrical Upgrade	280,980	257,818	23,162
Colson Excavating Co, LLC	Waid Package Plant Removal	414,885	229,274	185,611
SAK	Rehab Contract CY '2019	<u>1,232,085</u>	<u>-</u>	<u>1,232,085</u>
		<u>\$9,026,451</u>	<u>\$5,649,811</u>	<u>\$3,376,640</u>

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, 2019 and 2018, respectively, and are included as part of the unrestricted net assets on the statements of net position.

Note N - Interest Expense:

For the years ended June 30, 2019 and 2018, interest expense before adjustment for capitalized construction period interest was \$490,541 and \$470,388, respectively. For the years ended June 30, 2019 and 2018, interest expense of \$57,238 and \$23,421, respectively, was capitalized to the Agency's capital assets accounts.

(Continued)

PADUCAH MCCRACKEN JOINT SEWER AGENCY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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	78,118	
Adjustments to net position		(885,891)
NET POSITION JULY 1, 2017, AS RESTATED		<u>\$55,151,926</u>

Note P - Subsequent Events:

Management has evaluated subsequent events through October 16, 2018, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.058451%	0.061135%	0.06150%	0.06322%	0.06460%
Employer's proportionate share of the net pension liability (asset)	\$3,559,844	\$3,578,420	\$3,028,183	\$2,717,993	\$2,096,632
Employer's covered payroll	1,445,142	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	246.33%	240.77%	206.67%	184.47%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	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, 2019, is based on the June 30, 2017 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2018 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, 2017
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	20.00% 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:	House Bill 185 updated the provisions for active members who die in the line of duty. Benefits paid to spouses of deceased members increased from 25.00% of the member's final rate of pay to 75.00% of the member's average pay. If no surviving spouse, benefits to surviving dependent children increased from 10% of the member's final pay to 50% of average pay for one child, 65.00% of average pay for two children, or 75.00% of average pay for three children.
Changes of assumptions:	None

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 SIX FISCAL YEARS***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 228,898	\$ 209,257	\$ 207,334	\$ 181,983	\$ 188,741	\$ 203,705
Contributions in relation to the contractually required contribution	<u>228,898</u>	<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>	<u>\$ -</u>
Employer's covered payroll	\$ 1,411,208	\$ 1,445,142	\$ 1,486,264	\$ 1,465,240	\$ 1,473,428	\$ 1,482,568
Contributions as a percentage of covered payroll	16.22%	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.

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
LAST TWO FISCAL YEARS*

	<u>2019</u>	<u>2018</u>
Employer's proportion of the net OPEB liability (asset)	0.05845%	0.06114%
Employer's proportionate share of the net OPEB liability (asset)	\$ 1,037,750	\$ 1,229,023
Employer's covered-employee payroll	\$ 1,445,142	\$ 1,486,264
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	71.81%	82.69%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	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, 2019, is based on the June 30, 2017 actuarial valuation as rolled forward to the plan's fiscal year end of June 30, 2018 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, 2017
Experience study:	July 1, 2008 - June 30, 2013
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll
Remaining amortization period:	25 years
Asset valuation method:	20.00% of the difference between the market value of assets and the expected actuarial value of assets is recognized each year
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 50.00% for males and 30.00% 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 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years (Pre-65). Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years (Post-65).
Changes of benefit terms:	House Bill 185 updated the benefit provisions for active members who die in the line of duty. The system now pays 100% of the insurance premium for spouses and children of all active members who die in the line of duty.
Changes of assumptions:	The single discount rate for non-hazardous changed from 5.84% to 5.85%. The municipal bond rate increased from 3.56% to 3.62%.

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 THREE FISCAL YEARS***

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 74,230.00	\$ 67,922	\$ 70,300
Contributions in relation to the contractually required contribution	<u>74,230.00</u>	<u>67,922</u>	<u>70,300</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll	\$ 1,411,208	\$ 1,445,142	\$ 1,486,264
Contributions as a percentage of covered-employee payroll	5.26%	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.

SUPPLEMENTAL INFORMATION

**PADUCAH MCCRACKEN COUNTY JOINT SEWER AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency:</u>			
Passed through Kentucky Infrastructure Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	A16-072	\$ 510,013
Capitalization Grants for Clean Water State Revolving Funds	66.458	A17-033	<u>1,603,677</u>
Total U.S. Environmental Protection Agency			<u>2,113,690</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 2,113,690</u></u>

**PADUCAH MCCRACKEN COUNTY JOINT SEWER AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

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 basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Organization did not elect to use the 10.00% de minimis indirect cost rate.

Note B - Reconciliation to Financial Statements:

Total federal award expenditures above	\$ 2,113,690
Less: Federal award expenditures above applicable to loan program	<u>(2,113,690)</u>
	-
Other grants	<u>4,500</u>
 TOTAL GRANT REVENUE PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	 <u><u>\$ 4,500</u></u>

PADUCAH MCCRACKEN JOINT SEWER AGENCY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Original and Final Budget Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Operating Revenues:			
Charges for services	\$8,915,200	\$9,192,706	\$ 277,506
Operating Expenses:			
Salaries, wages and benefits	2,387,050	2,511,832	(124,782)
Chemicals, testing, and solids disposal	404,500	439,942	(35,442)
Utilities	810,700	885,821	(75,121)
Materials, supplies, and repairs	463,700	397,614	66,086
Fleet expense	100,200	101,856	(1,656)
Liability insurance	126,500	125,249	1,251
Training, safety, and dues	37,250	36,013	1,237
Professional fees	95,000	73,356	21,644
Office expense	15,200	17,037	(1,837)
Public education	7,500	6,613	887
Billing and collections	142,000	139,305	2,695
Bad debts	70,400	62,863	7,537
Board of Directors expense	16,800	16,800	-
Miscellaneous	20,100	14,161	5,939
Depreciation	2,955,000	2,905,060	49,940
Total operating expenses	7,651,900	7,733,522	(81,622)
Operating income	1,263,300	1,459,184	195,884
Non-operating Revenues (Expenses):			
Investment revenue	150,000	291,206	141,206
Interest expense	(501,100)	(433,303)	67,797
Amortization	(5,500)	(5,460)	40
Gain (loss) on sale of assets	-	-	-
Tap-on and assessment fees	206,000	184,708	(21,292)
Other, net	(65,550)	(60,529)	5,021
Total non-operating revenues (expenses), net	(216,150)	(23,378)	192,772
Change in net position before capital contributions	1,047,150	1,435,806	388,656
Capital Contributions:			
Grant revenue	-	4,500	4,500
Contributed capital	-	85,000	85,000
Total capital contributions	-	89,500	89,500
INCREASE (DECREASE) IN NET ASSETS	\$1,047,150	\$1,525,306	\$ 478,156

See independent auditor's report.



WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2019, 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 16, 2019.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

Paducah McCracken Joint Sewer Agency's Response to Findings

Paducah McCracken Joint Sewer Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Paducah McCracken Joint Sewer Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Williams, Williams & Lentz, LLP

Paducah, Kentucky
October 16, 2019



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**Independent Auditor's Report On Compliance
for Each Major Program And On
Internal Control Over Compliance
Required by the Uniform Guidance**

To the 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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of 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, 2019.

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 type 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of 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, as defined above. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Williams, Williams & Lentz, LLP

Paducah, Kentucky
October 16, 2019



WILLIAMS
WILLIAMS
& LENTZ

**PADUCAH MCCRACKEN JOINT SEWER AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

A. Summary Of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Paducah McCracken Joint Sewer Agency.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Paducah McCracken Joint Sewer Agency, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report On Compliance for Each Major Program And On Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal awards programs for Paducah McCracken Joint Sewer Agency expresses an unmodified opinion.
6. There are no audit findings required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance.
7. The programs tested as major programs included:

Name	CFDA
Capitalization Grants for Clean Water State Revolving Funds	66.458
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Paducah McCracken Joint Sewer Agency was not determined to be a low-risk auditee.

B. Findings - Basic Financial Statements Audits

1. Cash Deposits - Kentucky Revised Statutes require that all banks prior to being appointed as a depositor for a Kentucky government agency must agree to provide pledged securities or other collateral equivalent to the government's cash deposits in excess of Federal Deposit Insurance Corporation coverage limits (FDIC). It was noted that the Paducah McCracken Joint Sewer Agency had deposits in excess of FDIC coverage limits and pledged securities at one bank as of June 30, 2019. These excess funds were uninsured and uncollateralized subjecting Paducah McCracken Joint Sewer Agency to custodial credit risk, which is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it.

Management's Response:

Paducah McCracken Joint Sewer Agency added additional coverage in July 2019 to ensure all deposits were insured or collateralized. Furthermore, the Paducah McCracken Joint Sewer Agency has directed the portfolio managers for their managed accounts to monitor their pledged collateral on an ongoing basis to prevent a future instance of custodial credit risk. The total uninsured amount represented approximately 0.20% of the total deposits.

C. Findings And Questioned Costs - Major Federal Awards Program

None