

Shelbyville Municipal Water and Sewer Commission

Shelbyville, Kentucky

Financial Statements

And Independent Auditors' Report

For the Year Ended

June 30, 2022

Shelbyville Municipal Water and Sewer Commission
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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Shelbyville Municipal Water and Sewer Commission
Shelbyville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Shelbyville Municipal Water and Sewer Commission (the "Commission"), component unit of the City of Shelbyville, Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of June 30, 2022, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 13 to the financial statements, the Commission adopted Government Accounting Standards Board Statement No. 87 – *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension schedules on page 26-27 and the OPEB schedules on pages 28-29 be presented to supplement the basic financial statements. Such information, is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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.

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying Schedule of Revenues, Expenses and Changes in Fund Balance – Budget and Actual, the Schedule of Operating Revenues – Budget and Actual, and the Schedule of Operating Expenses – Budget and Actual (collectively “*other supplementary information*”) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *other supplementary information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Board of Commissioners listing, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2023 on our consideration of the Commission'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 solely 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 the Commission'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 the Commission's internal control over financial reporting and compliance.

Baldwin CPA's, PLLC

Baldwin CPA's, PLLC

Richmond, Kentucky

May 4, 2023

Shelbyville Municipal Water and Sewer Commission
Statement of Net Position
June 30, 2022

Assets

Current assets:

Operating cash and cash equivalents	\$ 2,126,089
Accounts Receivable:	
Trade accounts receivable, net	659,328
Other receivables, net	60,721
Materials inventory	144,253
Prepaid expenses	159,718
Lease receivables - current	16,466
Total current assets	<u>3,166,575</u>

Restricted cash and cash equivalents

Debt service fund	683,450
WWTP Bond funds	17,515,483
Depreciation fund	1,983,665
Surplus fund	179,999
System development charge	<u>1,797,163</u>

Total restricted cash and cash equivalents 22,159,760

Non-current assets:

Capital assets:

Land	244,706
Water rights	165,652
Construction work in progress	<u>4,966,044</u>

Total non-depreciable assets 5,376,402

Depreciable assets

Water plant in service	35,404,429
Sewer plant in service	38,167,686
Administrative and general	2,352,342
Total depreciable assets	<u>75,924,457</u>
Less accumulated depreciation	<u>(36,259,829)</u>
Total depreciable assets, net	39,664,628

Lease receivables - noncurrent 264,452

Total noncurrent assets 45,305,482

Total assets 70,631,817

Deferred Outflows of Resources

Deferred outflows of resources - pension and OPEB	1,428,791
Deferred outflows of resources - loss on debt refunding	243,915
Total deferred outflows of resources	<u>1,672,706</u>

Total assets and deferred outflows \$ 72,304,523

Shelbyville Municipal Water and Sewer Commission
Statement of Net Position
June 30, 2022

Liabilities

Current liabilities:

Accounts payable	\$ 351,589
Accrued expenses	77,247
Customer deposits	301,872
Unpaid claims	6,206
Accrued interest - customer deposits	161,793
Accrued interest - bonds	34,471
Payable from restricted assets:	
Current portion of long-term debt	1,225,030
Accounts payable - construction	<u>257,068</u>

Total current liabilities 2,415,276

Non-current liabilities:

Long-term debt	33,152,490
Net OPEB liability	1,078,659
Net pension liability	<u>3,593,160</u>

Total non-current liabilities 37,824,309

Total liabilities 40,239,585

Deferred Inflows of Resources

Deferred inflows of resources - pension and OPEB	1,204,318
Deferred inflows - leases	<u>246,836</u>
Total deferred inflows	<u>1,451,154</u>

Total liabilities and deferred inflows 41,690,739

Net position

Net investment in capital assets	22,805,591
Restricted for:	
Debt service	683,450
Capital projects	3,780,828
Surplus	179,999
Unrestricted	<u>3,163,916</u>

Total net position 30,613,784

Total liabilities, deferred inflows and net position \$ 72,304,523

Shelbyville Municipal Water and Sewer Commission
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2022

Operating revenues	
Water sales	\$ 4,297,083
Sewer sales	3,322,175
Other revenues	<u>120,339</u>
Total operating revenues	7,739,597
Operating expenses	
Direct water expenses	2,128,536
Direct sewer expenses	1,402,991
Administrative expenses	1,943,744
Depreciation - water plant	835,674
Depreciation - sewer plant	960,208
Depreciation - office building	<u>31,703</u>
Total operating expenditures	7,302,856
Operating income	436,741
Non-operating revenues (expenses):	
Interest income	64,075
Grant revenue	18,738
Interest expense	(947,363)
Capital contributions	168,821
Sewer debt tap on fees	645,590
Tap on fees	400,109
Debt administration fees	<u>(40,042)</u>
Total non-operating revenues (expenses):	<u>309,928</u>
Income before transfers	746,669
Transfers out- City of Shelbyville	<u>(158,209)</u>
Net change in net position	588,460
Net position, July 1, 2021, as originally stated	29,993,970
Prior period adjustment (see note 13)	<u>31,354</u>
Net position, July 1, 2021, as restated	<u>30,025,324</u>
Net position, June 30, 2022	<u><u>\$ 30,613,784</u></u>

Shelbyville Municipal Water and Sewer Commission
Statement of Cash Flows
For the Year Ended June 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 7,765,852
Cash payments to suppliers for goods and services	(3,852,576)
Cash payments to employees	<u>(1,217,338)</u>
Net cash provided by operating activities	2,695,938
Cash flows from noncapital financing activities	
Transfer to City of Shelbyville	<u>(158,209)</u>
Net cash used by noncapital financing activities	(158,209)
Cash flows from capital and related financing activities	
Capital contributions	168,821
Tap on fees	1,045,699
Purchase of capital assets	(4,781,957)
Payments on lease receivable	21,962
Principal payments on long-term debt	(1,225,328)
Interest payments on long-term debt	(912,892)
Grant revenue	18,738
Debt administration fees	<u>(40,042)</u>
Net cash used in capital and related financing activities	(5,704,999)
Cash flows from investing activities	
Interest received	<u>64,075</u>
Net cash provided by investing activities	64,075
Net decrease in cash	(3,103,195)
Cash, beginning of year	<u>27,389,044</u>
Cash, end of year	<u><u>\$ 24,285,849</u></u>
Shown in the financial statements as:	
Operating cash and cash equivalents	\$ 2,126,089
Restricted cash	<u>22,159,760</u>
	<u><u>\$ 24,285,849</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 436,741
Adjustments:	
Depreciation	1,827,585
Change in assets and liabilities:	
Accounts receivable	10,784
Inventory	71,937
Prepaid expenses	(130,453)
Other receivables	30,668
Deferred outflows - pension and opeb	249,307
Accounts payable	199,319
Customer deposits	3,670
Accrued expenses, interest, and unpaid claims	11,160
Net pension liability	(623,353)
Net OPEB liability	(248,434)
Deferred inflows - pension and opeb	875,874
Deferred inflows - leases	<u>(18,867)</u>
Net cash provided by operating activities	<u><u>\$ 2,695,938</u></u>

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 1 - Summary of Significant Accounting Policies

Business Activity

The Shelbyville Municipal Water and Sewer Commission (a component unit of the City of Shelbyville, Kentucky) operates a combined water and sewer system which serves Shelbyville and the surrounding area. The original Commission established in 1955 was dissolved, reestablished, and restructured during 1993. During 2000, the Shelby County Fiscal Court conveyed all property and assets of Sanitation District No. 1 to the Commission and the Commission assumed the debts and obligations of Sanitation District No. 1 to form a newly constituted Commission. The new Commission consists of seven voting members. The Mayor of the City of Shelbyville, Kentucky shall be one voting member and serve as chairperson. Three other members are appointed by the Mayor, with approval of the City Council. One of the three members appointed by the Mayor shall be a member of the City Council. Three members are to be appointed by the Shelby County Judge Executive, with approval of the Fiscal Court. One of the three members appointed by the Judge Executive shall be a member of the Fiscal Court.

Financial Statement Presentation

The financial statements of the Commission are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Commission's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Basis of Accounting and Measurement Focus

The Commission is accounted for as a governmental proprietary fund and as such, its financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The Commission is financed and operated in a manner similar to a private business where the intent of the governing body is that cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges.

The Commission is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources 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 in which the liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

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

Cash Equivalents

For the purpose of the statement of cash flows, the Commission considers all money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. Trade accounts receivable are for services to customers. Allowances for uncollectible accounts receivable were estimated to be \$129,731 and are based upon historical trends and the periodic aging of accounts receivable. Intergovernmental receivables are reported at the amount management expects to collect from outstanding balances and represent amounts due from local and state governments related to water and sewer projects. Other receivables are reported at the amount management expects to collect from outstanding balances and represent amounts due from local entities for reimbursement of costs on water and sewer projects. The allowance for uncollectible accounts was estimated to be \$0 at June 30, 2022. The allowance was based on Management's analysis of the account aging.

Materials Inventory

The inventory is priced at cost on the first-in, first-out basis.

Capital Assets

All property and equipment is recorded at cost. Certain interest costs incurred on funds borrowed for construction is capitalized during the construction period per Governmental Accounting Standards Board ("GASB") Section 1400.

The Commission uses the straight-line method for property, plant and equipment based on the following estimated useful life by major class of depreciable assets:

Class

Buildings and improvements	20-50 years
Machinery and equipment	5-10 years
Water and sewer systems	50 years
Infrastructure	20-50 years

Customer Deposits

Interest is accrued at the rate of 6% but not paid until service is discontinued.

Revenue

Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized.

New customer service connection fees are recorded as an addition to the equity of the water and sewer system. The cost of installation of the new service is recorded as an addition to water or sewer plant in service and is subject to depreciation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

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

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted balances, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Accumulated Vacation and Sick leave

Vacation is earned at rates varying between 1 to 15 days per year depending on the length of service. Employees must use vacation time earned during the year as there is no carryover. Sick leave accrues at the rate of 1 day per month and shall accumulate to a maximum of 126 days. Unused sick days are not payable upon retirement or termination. The only benefit available for unused sick leave is limited to retirement credit by the County Employees Retirement System (“CERS”) at a maximum of six months credit for 116-126 sick days accumulated at retirement. Any amount of accrued sick leave above 126 days will not be credited for retirement.

Retirement System

For purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources, deferred inflows of resources related to pension and OPEB expense, information about the fiduciary net position of CERS and addition to/deduction from CERS's fiduciary net position have been determined on the same basis as they were reported by CERS.

Lease Receivables and Deferred Inflows

GASB Statement No. 87, *Leases*, requires recognition of certain lease receivables and deferred inflows for leases that were previously classified as operating leases and recognized as inflows or outflows of resources.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 2 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Commission's deposits may not be returned. The Commission does have a deposit policy for custodial credit risk and follows the requirements of KRS 41.240(4). The Commission maintains numerous accounts at a depository bank. The bank has pledged securities to the Commission for those accounts with balances exceeding \$250,000.

The Commission's deposit and investment policies conform to state statutes. The Commission deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of pledged treasury certificates by the pledging financial institution, certificate of deposit account registry service (CDARS), and insured cash sweep (ICS). As of June 30, 2022, all the Commission's \$24,285,849 bank balance was 100% collateralized by pledged treasury certificates by the financial institution.

Note 3 – Components of Restricted Assets

This is a summary of the components of the restricted assets of the Commission:

- a. Debt service fund – This fund will be used for the payment of principal and interest on revenue bonds.
- b. Depreciation fund – This fund shall be available and shall be utilized to balance depreciation, to make unforeseen major repairs and replacements to the Water and Sewer System ("System") and to pay the costs of constructing additions, extensions, betterments and improvements to the System.
- c. System Development Charge – This fund shall be maintained by the Commission for improvements and ongoing construction for improvements to the System.
- d. Surplus fund – This fund shall be maintained by the Commission and used to the extent necessary for payment of obligations, payments of principal and interest for costs of improving or extending the System, or for any other lawful municipal purpose.
- e. Special bond account 2021 – This fund shall be maintained to account for the proceeds from 2021 General Obligation Bond.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 4 – Utility Plant and Capital Assets

The water system assets and sewer system assets are recorded at cost. Following is a schedule of the utility plant:

Water Plant and Land

Source of supply land	\$ 36,238
Power and pumping land	84,342
Source of supply structures	5,542,086
Pumping structures	643,788
Standpipes	6,574,638
Purification system	3,351,928
Dam and line	300,409
Miscellaneous structures	44,809
Pumping equipment	2,774,458
Distribution mains	11,238,590
Services and meters	4,350,470
Hydrants	583,253
Total water plant and land	<u>\$ 35,525,009</u>

Sewer Plant and Land

Land	\$ 124,126
Structures	11,777,147
Distribution lines	14,538,315
Manholes	1,165,190
Disposal plant equipment	10,677,917
Office furniture and fixtures	9,117
Total sewer plant and land	<u>\$ 38,291,812</u>

Administrative and general

Land improvements and building	\$ 778,741
Office furniture and fixtures	384,060
Transportation equipment	702,707
Shop equipment	486,833
Total administrative and general	<u>\$ 2,352,342</u>

Construction in progress

Water plant	\$ 2,352,054
Sewer plant	2,613,990
Total construction in progress	<u>\$ 4,966,044</u>

Water rights	<u>\$ 165,652</u>
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Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 4 – Utility Plant and Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2022 is as follows:

	Balance June 30, 2021	Additions	Deductions	Balance June 30, 2022
Capital assets not being depreciated				
Land	\$ 244,706	\$ -	\$ -	\$ 244,706
Water rights	165,652	-	-	165,652
Construction in process	3,607,692	3,821,871	(2,463,519)	4,966,044
Total capital assets not being depreciated	4,018,050	3,821,871	(2,463,519)	5,376,402
Depreciable assets:				
Water plant in service	32,480,497	2,923,932	-	35,404,429
Sewer plant in service	37,924,323	243,363	-	38,167,686
Administrative and general	2,096,035	256,307	-	2,352,342
Total depreciable assets	72,500,855	3,423,602	-	75,924,457
Total capital assets	76,518,905	7,245,473	(2,463,519)	81,300,859
Accumulated depreciation:				
Water plant in service	(15,516,510)	(835,674)	-	(16,352,184)
Sewer plant in service	(17,638,689)	(960,208)	-	(18,598,897)
Administrative and general	(1,277,045)	(31,703)	-	(1,308,748)
Total accumulated depreciation	(34,432,244)	(1,827,585)	-	(36,259,829)
Capital assets, net	\$ 42,086,661	\$ 5,417,888	\$ (2,463,519)	\$ 45,041,030

Note 5 – Lease Receivables and Deferred Inflows of Resources

The Commission is reporting a lease receivable of \$280,918 at June 30, 2022. The lease is summarized as follows:

Lease	Lease Receivable	Lease Revenue	Lease Interest Revenue
Water tank attachment (Cell Tower)	\$ 280,918	\$ 18,867	\$ 5,823
Total	\$ 280,918	\$ 18,867	\$ 5,823

Water tank attachment lease – In August 2015, the Commission entered into a 20-year lease agreement with a company for the lease of space on a water tank tower for cell tower use. Based on this agreement, the Commission is receiving monthly payments through July 2035.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 5 – Leases (Continued)

Lease Receivables - continued

Year Ended June 30,	Principal	Interest
2023	\$ 16,466	\$ 5,495
2024	16,800	5,161
2025	17,141	4,820
2026	19,519	4,456
2027	20,101	4,056
Thereafter	190,891	16,173
Total	<u>\$ 280,918</u>	<u>\$ 40,161</u>

The deferred inflows of resources will be recognized over the term of the lease agreement as lease revenue. During 2022, the Commission recognized \$5,823 of interest revenue and \$18,867 of lease revenue from the lease agreements.

Note 6 – Long-Term Debt

On April 21, 2021 the Commission refinanced the series 2004 Bonds through a \$6.5 million general obligation lease through the Kentucky Bond Corporation. The net proceeds of the general obligation lease were used to pay off the 2004 KLC lease obligation. The refinance was recorded as a current refunding and the Commission recognized a loss of debt refunding of \$257,890. The loss is recorded as deferred outflow of resources and the loss will be amortized over the life of the new debt.

As a result of the refunding, the 2004 lease obligation is considered to be extinguished and the liability for that debt has been removed from long-term debt. Repayment of the new general obligation lease begins in June 2021 at an interest rate of 3% and will be paid back across 20 years with a maturity of February 2041.

On December 2, 2015, the City of Shelbyville entered into a variable rate lease agreement with the Kentucky Bond Corporation as lessor. Under the agreement, revenue bonds of \$4,190,000 were sold at par. Proceeds were used for improvements to the Shelbyville Wastewater Treatment Plant including the acquisition, construction, renovation and equipping of the system related to changing its disinfection process from free chlorine to chloramines.

The bonds sold under the lease agreement will be retired over nineteen (19) years with a 3.00% interest rate. The lessee shall pay base rentals in the amounts specified in its lease agreement. After notice from the lessor, the Commission will pay additional rentals within fifteen (15) days. Any lease rental payment that is not paid within ten (10) days of the date due shall bear interest thereon at the late payment rate.

On November 3, 2017, the City of Shelbyville, Kentucky, for and on-behalf of the Commission issued General Obligation Bonds, Series 2017, in the principal amount of \$6,500,000 to acquire, construct and equip the water treatment plant and certain other improvements. Interest on the bonds shall accrue at 4% per annum and will mature in 20 years. Principal and interest are payable on monthly basis. The bonds are secured by the revenues of the City and the Commission. The bonds established sinking funds for bond payments and project proceeds.

In June 2021 the City of Shelbyville, Kentucky, for and on-behalf of the Commission issued a General Obligation Bond Series 2021, in the principal amount of \$20,250,000 to acquire, construct and equip a new wastewater treatment plant. Interest on the bond shall accrue at 2% per annum and will mature in 30 years. Principal and interest are payable on a semi-annual basis starting in December 2021. The balance of the bond at June 30, 2022 was \$19,735,000.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 6 – Long-Term Debt (continued)

At June 30, 2022, the Commission had the following outstanding debt:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2023	\$ 1,225,030	\$ 872,672	\$ 2,097,702
2024	1,258,668	840,616	2,099,284
2025	1,291,127	806,720	2,097,847
2026	1,327,751	772,389	2,100,140
2027	1,370,529	737,030	2,107,559
2028-2032	7,427,954	3,115,116	10,543,070
2033-2037	7,766,303	2,065,289	9,831,592
2038-2042	5,264,476	1,196,592	6,461,068
2043-2047	3,945,679	691,006	4,636,685
2048-2051	3,500,003	210,188	3,710,191
Total	<u>\$ 34,377,520</u>	<u>\$ 11,307,618</u>	<u>\$ 45,685,138</u>

A summary of changes in long-term liabilities of the Commission as of June 30, 2022 is as follows:

<u>Lease/Bond obligations</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within a year</u>
Bond Series 2015	\$ 3,235,835	\$ -	\$ 192,083	\$ 3,043,752	\$ 199,164
Bond Series 2017	5,643,888	-	263,035	5,380,853	271,697
Bond Series 2021	20,250,000	-	515,000	19,735,000	505,000
KBC Bond 2021	6,473,125	-	255,210	6,217,915	249,169
	<u>\$ 35,602,848</u>	<u>\$ -</u>	<u>\$ 1,225,328</u>	<u>\$ 34,377,520</u>	<u>\$ 1,225,030</u>

Note 7 – Retirement Plan

Plan description. Employees of the Commission are provided a defined benefit pension plan through the County Employees Retirement System ("CERS"), a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"). The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's year of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 7 – Retirement Plan (Continued)

Kentucky Revised Statutes provides authority for employee and employer contributions. Employees and the Commission have contributed all of the required contributions for the fiscal year ending June 30, 2022.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	26.95%

The Commission's contribution for the fiscal year ended June 30, 2022 amounted to \$477,211, of which \$396,354 was contributed by the Commission and \$71,916 by the Commission's employees.

For the fiscal year, ended June 30, 2022 the Commission's covered payroll for non-hazardous positions was \$1,470,700.

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

At June 30, 2022, the Commission reported a liability of \$3,593,160 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the Commission's proportion was 0.056 percent for non-hazardous.

For the year ended June 30, 2022, the Commission recognized pension expense as follows.

Required cash contributions to the plan	\$ 396,354
Commission's proportionate share of plan's pension expense (non-cash)	<u>256,796</u>
Total pension expense	<u>\$ 653,150</u>

At June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 182,714	\$ 497
Differences between expected and actual results	41,260	34,874
Changes of assumptions	48,224	-
Net difference between projected and actual earnings on Plan investments	139,390	618,295
Commission's contributions subsequent to the measurement date	319,581	-
Total	<u>\$ 731,169</u>	<u>\$ 653,666</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 7 – Retirement Plan (continued)

The \$319,581 of deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2023	\$ 78,896
2024	(65,766)
2025	(105,239)
2026	(149,969)

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments and for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date.

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. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2021 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	30 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 7 – Retirement Plan (continued)

The mortality table used for active members was a Pub-2010 General Mortality table, for the NonHazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019.

The long-term expected rate of return 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.

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	5.70%	21.75%
Non-U.S. Equity	6.35%	21.75%
Core Bonds	0.00%	10.00%
Specialty Credit/ High Yield	2.80%	15.00%
Real Estate	5.40%	10.00%
Opportunistic Return	N/A	0.00%
Real Return	4.55%	10.00%
Private Equity	9.70%	10.00%
Cash	-0.60%	1.50%
		100.00%

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 7 – Retirement Plan (continued)

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the Commission'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 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	Commission's proportionate share of net pension liability
1% decrease	5.25%	\$ 4,608,369
Current discount rate	6.25%	\$ 3,593,160
1% increase	7.25%	\$ 2,753,057

Payables to the pension plan: At June 30, 2022, the Commission did not report a payable for insurance contributions for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022 because they were paid before fiscal year end.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

Note 8 – Other Post-Employment Benefits (OPEB)

At June 30, 2022, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Inflows of Resources	<u>\$ 550,652</u>
Deferred Outflows of Resources	<u>\$ 697,622</u>
Net OPEB Liability:	<u>\$ 1,078,659</u>

Plan Description

Employees of the Commission are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 8 – Other Post-Employment Benefits (OPEB) (Continued)

Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The Commission has contractually required contribution rate for the year ended June 30, 2022 was 5.78% (non-hazardous) of covered payroll. Contributions to the Insurance Fund from the Commission were \$85,006 for the year ended June 30, 2021 for non-hazardous. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Valuation Date	June 30, 2019
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	30 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	
Pre—65	Initial trend starting at 6.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65	Initial trends starting at 5.50% and gradually decreasing to an ultimate Trend rate of 4.05% over a period of 14 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 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.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 8 – Other Post-Employment Benefits (OPEB) (Continued)

Discount Rate

Single discount rate of 5.20% for the non-hazardous system was used to measure the total OPEB liability as of June 30, 2021. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	5.70%	21.75%
Non-U.S. Equity	6.35%	21.75%
Core Bonds	0.00%	10.00%
Specialty Credit/ High Yield	2.80%	15.00%
Real Estate	5.40%	10.00%
Opportunistic Return	N/A	0.00%
Real Return	4.55%	10.00%
Private Equity	9.70%	10.00%
Cash	-0.60%	1.50%
		<u>100.00%</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 8 – Other Post-Employment Benefits (OPEB) (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.20%) or one percentage point higher (6.20%) follows:

	Discount Rate	Commission's proportionate share of net OPEB liability
1% decrease	4.20%	\$ 1,480,990
Current discount rate	5.20%	\$ 1,078,659
1% increase	6.20%	\$ 748,479

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates follows:

Healthcare Cost Trend Rate	Commission's proportionate share of net OPEB liability
1% decrease	\$ 776,506
Current healthcare rate	\$ 1,078,659
1% increase	\$ 1,443,361

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the Commission recognized OPEB expense of \$167,552. At June 30, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 85,163	\$ 4,510
Implicit subsidy	35,492	-
Differences between expected and actual results	169,619	322,052
Changes of assumptions	285,973	1,003
Net difference between projected and actual earnings on Plan investments	54,346	223,087
District contributions subsequent to the measurement date	67,029	-
Total	\$ 697,622	\$ 550,652

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 8 – Other Post-Employment Benefits (OPEB) (Continued)

The \$67,029 of deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2023	\$ 55,234
2024	29,541
2025	19,271
2026	(59,597)
Thereafter	-

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. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

Note 9 – Transfer

Pursuant to an Interlocal Cooperation Agreement dated January 31, 2000 between the City of Shelbyville, the Shelbyville Municipal Water Commission, and the County of Shelby, the City of Shelbyville shall receive no more than 7% of the annual gross water and sewer revenues of the Commission, and any amounts transferred to the City of Shelbyville shall represent surplus funds of the Commission. The funds transferred for the current year ended June 30, 2022 were \$158,209.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 10 – Employee Health Benefit Plan and Claims Liability

Effective July 1, 2006, the Commission implemented an employee health and welfare benefit plan providing medical benefits utilizing a preferred provider network, and prescription drug benefits. A copy of the Plan documents and insurance contracts, if any, are on file at the plan administrator's office and may be read by any covered person at any reasonable time.

The plan is fully funded by the employer. Funds for payment of claims considered under the plan are forwarded to accounts from which claims are to be paid. The Commission maintains these funds and is the administrator, fiduciary and legal agent. Medical Benefits Administrators, Inc., 1975 Tamarack Road, P.O. Box 1099, Newark, Ohio 43058-1099 is the benefit manager. The plan is funded by contributions made by the employer and employees who are participating under the plan. Participation contributions are currently required for both participant and dependent coverage.

The Commission has purchased excess stop-loss insurance for medical expenses that exceed \$55,000 per covered individual for fiscal year June 30, 2022.

The Commission records an estimated liability for indemnity health care claims. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. Eligible claims are required to be presented within one-year of the date of service.

Changes in the balances of claims liability are summarized below:

	Claims Liability
Liability Balance, June 30, 2021	\$ 14,195
Claims and changes in estimates	227,731
Claims payments	(235,720)
Liability Balance, June 30, 2022	<u>\$ 6,206</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2022

Note 11 – Budgeting

The Chairman shall submit an annual budget to the Commission at the May monthly meeting. The budget shall provide for any request by the Commission for surplus funds deposited in the name of the City. The annual budget shall be approved no later than June 30 of each year. Surplus funds in excess of the amount required to be maintained under the provision of the lease agreements between Kentucky Municipal Finance Corporation and the City of Shelbyville shall be deposited in the name of the City as provided in the lease agreements and may be transferred to the general fund of the City as provided in the lease agreements.

Note 12 – Insurance and Risk Management

The Commission is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The Commission has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the Commission's experience to date.

Note 13 – Change in Accounting Principle and Restatement

In June 2017, the GASB issued Statement No. 87, *Leases* which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Commission has implemented this statement, to its financial statements for the year ending June 30, 2022, effective July 1, 2021. As a result of the implementation, the Commission restated certain Fiscal Year 2021 balances for business-type activities as noted below:

Business-type Activities Accounts	June 30, 2021		June 30, 2021	
	Balance As Originally Reported	Impact of Restatement	Balance As Restated	
Lease receivables	\$ -	\$ 297,057	\$ 297,057	
Deferred inflows - leases	\$ -	\$ 265,703	\$ 265,703	
Net position, ending	\$ 29,993,970	\$ 31,354	\$ 30,025,324	

Note 14 - Subsequent Events

On July 22, 2022 the Commission restructured their Bond Series 2015 & 2017 into a single bond with new payment terms and got an additional \$7.5M bond to assist in the building of the new water treatment facility.

The Commission has evaluated and considered the need to recognize or disclose subsequent events through May 4, 2023 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2022, have not been evaluated by the Commission.

REQUIRED SUPPLEMENTARY INFORMATION

Shelbyville Municipal Water and Sewer Commission
Schedule of the Commission's Proportionate Share of the Net Pension Liability
County Employees' Retirement System
Last Eight Fiscal Years

	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021	June 30, 2022
	Non-Hazardous	Non-Hazardous	Non-Hazardous	Non-Hazardous	Non-Hazardous	Non-Hazardous	Non-Hazardous	Non-Hazardous
Commission's proportion of the net pension liability	0.045460%	0.046410%	0.045350%	0.046831%	0.050552%	0.050330%	0.054975%	0.056356%
Commission's proportionate share of the net pension liability	\$1,475,000	\$1,995,513	\$2,230,629	\$2,741,162	\$3,078,771	\$3,539,731	\$4,216,513	\$3,593,160
Commission's covered employee payroll	\$1,042,996	\$1,080,750	\$1,141,499	\$1,250,688	\$1,269,947	\$1,408,173	\$1,439,799	\$1,470,700
Commission's proportion of the net position liability as a percentage of its covered-employee payroll	141.42%	184.64%	195.41%	219.17%	242.43%	251.37%	292.85%	244.32%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.50%	53.54%	50.45%	47.81%	57.33%

Shelbyville Municipal Water and Sewer Commission
Schedule of the Commission's Pension Contributions
County Employees' Retirement System
Last Eight Fiscal Years

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>
Contractually required contribution	\$ 133,295	\$ 134,229	\$ 159,235	\$ 181,205	\$ 205,985	\$ 271,777	\$ 277,881	\$ 311,347
Contributions in relation to the contractually required contribution	<u>\$ (133,295)</u>	<u>\$ (134,229)</u>	<u>\$ (159,235)</u>	<u>\$ (181,205)</u>	<u>\$ (205,985)</u>	<u>\$ (271,777)</u>	<u>\$ (277,881)</u>	<u>\$ (311,347)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$1,042,996	\$1,080,750	\$1,141,499	\$1,250,688	\$1,269,947	\$1,408,173	\$1,439,799	\$1,470,700
Contributions as a percentage of covered employee	12.78%	12.42%	13.95%	14.49%	16.22%	19.30%	19.30%	21.17%

Shelbyville Municipal Water and Sewer Commission
Schedule of the Commission's OPEB Contributions
County Employees' Retirement System
Last Five Fiscal Years

	<u>Non-Hazardous</u> <u>June 30, 2018</u>	<u>Non-Hazardous</u> <u>June 30, 2019</u>	<u>Non-Hazardous</u> <u>June 30, 2020</u>	<u>Non-Hazardous</u> <u>June 30, 2021</u>	<u>Non-Hazardous</u> <u>June 30, 2022</u>
Contractually required contribution	\$ 58,817	\$ 66,799	\$ 67,029	\$ 68,534	\$ 85,006
Contributions in relation to the contractually required contribution	<u>(58,817)</u>	<u>(66,799)</u>	<u>(67,029)</u>	<u>(68,534)</u>	<u>(85,006)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$1,250,688	\$1,269,947	\$1,408,173	\$1,439,799	\$1,470,700
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	4.76%	5.78%

Shelbyville Municipal Water and Sewer Commission
Schedule of Changes in the Commission's OPEB Liability
County Employees' Retirement System
Last Four Fiscal Years
(\$ in thousands)

	Non-Hazardous June 30, 2018	Non-Hazardous June 30, 2019	Non-Hazardous June 30, 2020	Non-Hazardous June 30, 2021	Non-Hazardous June 30, 2022
Change in the Net OPEB Liability					
Total OPEB liability					
Service Cost	\$ 40	\$ 62	\$ 60	\$ 72	\$ 75
Interest	113	122	121	130	148
Benefit Changes	-	2	-	-	2
Difference between actual and expected experience	(3)	(122)	(203)	278	(192)
Assumption Changes	244	(2)	135	33	159
Benefit Payments	(66)	(79)	(82)	(104)	(99)
Net Change on Total OPEB Liability	328	(17)	31	409	93
Total OPEB Liability - Beginning	1,650	2,135	2,108	2,337	2,815
Total OPEB Liability - Ending	<u>\$ 1,978</u>	<u>\$ 2,118</u>	<u>\$ 2,139</u>	<u>\$ 2,747</u>	<u>\$ 2,908</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 62	\$ 74	\$ 85	\$ 99	\$ 105
Contributions - Member	4	5	6	7	8
Benefit Payments	(66)	(79)	(82)	(104)	(99)
Net Investment Income	125	102	69	5	361
Administrative Expense	-	(0)	(0)	(0)	(1)
Other	-	0	0	-	-
Net Change in Plan Fiduciary Net Position	125	102	78	7	375
Plan Fiduciary Net Position - Beginning	911	1,118	1,215	1,413	1,455
Plan Fiduciary Net Position - Ending	<u>\$ 1,036</u>	<u>\$ 1,220</u>	<u>\$ 1,293</u>	<u>\$ 1,419</u>	<u>\$ 1,829</u>
Net OPEB Liability - Ending	\$ 942	\$ 898	846	1,327	1,079
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.4%	57.6%	60.4%	51.7%	62.9%
Covered Payroll	\$1,251	\$1,270	\$ 1,408	\$ 1,440	\$ 1,471
Net OPEB Liability as a Percentage of Covered Payroll	75.3%	70.7%	60.1%	92.2%	73.3%

See accompanying notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION

Shelbyville Municipal Water and Sewer Commission
Schedule of Revenues, Expenses and Changes in Net Position - Budget to Actual
For the Year Ended June 30, 2022

	Budget	Actual	Variance - Over (Under)
Operating Revenue			
Water sales	\$ 4,255,218	\$ 4,297,083	\$ 41,865
Sewer sales	3,429,520	3,322,175	(107,345)
Other revenues	153,000	120,339	(32,661)
	<u>7,837,738</u>	<u>7,739,597</u>	<u>(98,141)</u>
Total Operating Revenue	7,837,738	7,739,597	(98,141)
Operating Expenses			
Direct water expenses	1,989,365	2,128,536	139,171
Direct sewer expenses	1,316,153	1,402,991	86,838
Administrative expenses	1,825,518	1,943,744	118,226
Depreciation - water plant	740,000	835,674	95,674
Depreciation - sewer plant	950,000	960,208	10,208
Depreciation - office building	42,000	31,703	(10,297)
	<u>6,863,036</u>	<u>7,302,856</u>	<u>439,820</u>
Total Operating Expenditures	6,863,036	7,302,856	439,820
Operating Income	1,094,702	436,741	(657,961)
Non-operating revenues (expenses):			
Interest income	10,000	64,075	54,075
Interest expense	(960,233)	(947,363)	12,870
Grant revenue	-	18,738	18,738
Capital contributions	-	168,821	168,821
Tap on fees	-	1,045,699	1,045,699
Debt administration fees	(27,143)	(40,042)	(12,899)
	<u>(977,376)</u>	<u>309,928</u>	<u>1,287,304</u>
Total Non-Operating Revenues (Expenses):	(977,376)	309,928	1,287,304
Income Before Transfers	117,326	746,669	629,343
Transfers out- City of Shelbyville	(150,000)	(158,209)	(8,209)
	<u>(32,674)</u>	<u>588,460</u>	<u>\$ 621,134</u>
Net Change in Net Position	(32,674)	588,460	\$ 621,134
Net Position, June 30, 2021	<u>30,025,324</u>	<u>30,025,324</u>	
Net Position, June 30, 2022	<u>\$ 29,992,650</u>	<u>\$ 30,613,784</u>	

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Revenues - Budget to Actual
For the Year Ended June 30, 2022

	Budget	Actual	Variance - Over (Under)
Water Sales:			
Industrial sales	\$ 425,000	\$ 422,704	\$ (2,296)
Residential sales	2,542,000	2,529,086	(12,914)
Commercial sales	355,000	301,023	(53,977)
Sales to West Shelby Water District	175,000	151,401	(23,599)
Sales to Noth Shelby Water District	290,000	298,424	8,424
Sales to East US 60 Water District	275,800	339,651	63,851
Private fire protection	135,000	187,628	52,628
Public fire protection	5,418	5,429	11
Other water sales	52,000	61,737	9,737
Total Water Sales	4,255,218	4,297,083	41,865
Sewer Service			
Industrial service	460,000	448,446	(11,554)
Residential service	2,109,520	2,119,748	10,228
Commercial service	575,000	459,033	(115,967)
Sewer pretreatment program	85,000	22,554	(62,446)
Other sewer service	200,000	272,394	72,394
Total Sewer Service	3,429,520	3,322,175	(107,345)
Other Revenues			
Water meter turn ons	38,000	37,150	(850)
Miscellaneous income	50,000	21,701	(28,299)
Handling late fee	45,000	42,621	(2,379)
Rental income	20,000	18,867	(1,133)
Total Other Revenues	\$ 153,000	\$ 120,339	\$ (32,661)

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2022

	Budget	Actual	Variance - Over (Under)
Direct Water Expenses:			
Direct Water Purchased	\$ 460,000	\$ 465,820	\$ 5,820
Operation, supervision and engineering	6,000	2,287	(3,713)
Source of supply and pumping labor	294,016	256,354	(37,662)
Laboratory expense	100,000	79,162	(20,838)
Operating supplies	260,000	385,231	125,231
Maintenance - structures	82,627	89,952	7,325
Maintenance - pumping and filtering	56,099	57,779	1,680
Power	215,000	193,591	(21,409)
Maintenance - water mains	78,217	110,762	32,545
Maintenance - services and meters	78,550	76,523	(2,027)
Maintenance - hydrants	16,883	38,576	21,693
Meter readings	104,137	83,975	(20,162)
Sludge removal	75,000	160,754	85,754
Misc. labor	86,507	38,969	(47,538)
Vacation, holiday and sick-pay	76,329	88,801	12,472
	<u>76,329</u>	<u>88,801</u>	<u>12,472</u>
 Total Direct Water Expenses	 <u>\$ 1,989,365</u>	 <u>\$ 2,128,536</u>	 <u>\$ 139,171</u>

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2022

	Budget	Actual	Variance - Over (Under)
Direct Sewer Expenses:			
Operation, supervision and engineering	\$ 2,400	\$ 5,845	\$ 3,445
Sewer plant labor	150,049	154,232	4,183
Laboratory expense	40,000	38,534	(1,466)
Operating supplies	220,000	263,113	43,113
Maintenance - structures	38,218	34,122	(4,096)
Maintenance - disposal plant equipment	85,708	79,132	(6,576)
Power	200,000	214,412	14,412
Power - SD pump station	88,900	105,260	16,360
Maintenance - sewer mains	42,218	33,228	(8,990)
Maintenance - sewer manholes	8,290	6,124	(2,166)
Maintenance - pump stations	22,438	20,130	(2,308)
Maintenance - SD pump stations	27,235	536	(26,699)
Maintenance - flow monitoring	7,328	3,191	(4,137)
Pretreatment expense	35,600	36,976	1,376
Chronic tox testing	20,700	7,165	(13,535)
Sludge removal	201,316	239,480	38,164
Vacation, holiday and sick-pay	39,125	45,497	6,372
Labor - comm pump station	22,485	38,994	16,509
Pretreatment outside lab expense	12,000	6,973	(5,027)
Materials comm pump station	47,500	69,443	21,943
Maintenance - SD mains	2,443	97	(2,346)
Materials flow monitoring	1,000	507	(493)
Materials SD mains	1,200	-	(1,200)
Total Direct Sewer Expenses	\$ 1,316,153	\$ 1,402,991	\$ 86,838

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2022

	Budget	Actual	Variance - Over (Under)
Administrative Expenses:			
Office salaries	\$ 144,103	\$ 151,803	\$ 7,700
Office supplies and expenses	100,000	117,256	17,256
Uncollectible revenue	500	1,211	711
Management salaries	165,269	141,870	(23,399)
Management training	8,000	11,328	3,328
Legal and accounting	85,000	61,388	(23,612)
Commission member fees	40,000	37,851	(2,149)
Insurance	175,000	155,925	(19,075)
Employee insurance	240,000	125,281	(114,719)
Employee retirement	389,945	653,150	263,205
Miscellaneous expenses	100,000	115,810	15,810
Maintenance - general properties	7,500	2,679	(4,821)
Maintenance - safety equipment	27,500	33,960	6,460
Safety training	6,000	973	(5,027)
Truck and equipment expenses	120,000	149,751	29,751
Distribution shop supplies	32,500	12,915	(19,585)
Cash short over	500	611	111
Office utilities	8,000	8,018	18
Payroll taxes	116,430	121,088	4,658
Vacation, holiday and sick-pay	28,521	15,948	(12,573)
Office janitorial	15,000	13,147	(1,853)
Office cleaning supplies	750	1,076	326
Office maintenance	15,000	10,705	(4,295)
Total Administrative Expenses	<u>\$ 1,825,518</u>	<u>\$ 1,943,744</u>	<u>\$ 118,226</u>

Shelbyville Municipal Water and Sewer Commission
Board of Commissioners
June 30, 2022

	<u>Term Expires</u>
Mayor David Eaton	December 31, 2022
Wayne Stratton	June 30, 2023
Gil Tucker	June 30, 2024
Danny Eades	June 30, 2024
Val Owens	June 30, 2023
Al Andrews	June 30, 2024
Frank Page	December 31, 2024

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

To the Board of Commissioners
Shelbyville Municipal Water and Sewer Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Shelbyville Municipal Water and Sewer Commission (the "Commission"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated May 4, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Commission's internal control over financial reporting (internal control) as a basis for designing 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph 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 material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baldwin CPAs, PLLC
Baldwin CPAs, PLLC
Richmond, Kentucky
May 4, 2023