

**Shelbyville Municipal Water and Sewer Commission**

**Shelbyville, Kentucky**

Financial Statements

And Independent Auditors' Report

For the Year Ended

June 30, 2021

Shelbyville Municipal Water and Sewer Commission  
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-3
Basic Financial Statements:	
Statement of Net Position	4-5
Statement of Revenues, Expenses, and Changes in Net Position	6
Statement of Cash Flows	7
Notes to the Basic Financial Statements	8 - 25
Required Supplementary Information:	
Schedule of the Commission's Proportionate Share of the Net Pension Liability	26
Schedule of the Commission's Pension Contributions	27
Schedule of the Commission's OPEB Contributions - CERS	28
Schedule of the Changes in the Commission's OPEB Liability - CERS	29
Other Supplementary Information:	
Schedule of Revenues, Expenses and Change in Fund Balances – Budget and Actual	30
Schedule of Operating Revenues - Budget and Actual	31
Schedule of Operating Expenses – Budget and Actual	32-34
Board of Commissioners	35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the 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 20, 2021, 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, 2021, 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 Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (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 opinions.

#### ***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 within one year after the date that the financial statements are available to be issued.

## ***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 GAAS 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 GAAS 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, 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 Schedule of Revenues, Expenses and Changes in Fund Balance – Budget and Actual, the Schedule of Operating Revenues – Budget and Actual, the Schedule of Operating Expenses – Budget and Actual, and the list of the Board of Commissioners (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 January 24, 2022 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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commission's internal control over financial reporting and compliance.

***Baldwin CPA's, PLLC***

Baldwin CPA's, PLLC

Richmond, Kentucky

January 24, 2022

Shelbyville Municipal Water and Sewer Commission  
Statement of Net Position  
June 30, 2021

Assets

Current assets:

Operating cash and cash equivalents	\$ 3,324,193
Accounts Receivable:	
Trade accounts receivable, net	670,112
Other receivables, net	91,389
Materials inventory	216,190
Prepaid expenses	<u>29,265</u>
Total current assets	4,331,149

Restricted cash and cash equivalents

Debt service fund	702,367
WWTP Bond funds	17,750,614
Depreciation fund	2,473,285
Surplus fund	187,614
System development charge	2,055,286
Special bond account	<u>895,685</u>
Total restricted cash and cash equivalents	24,064,851

Non-current assets:

Capital assets:

Land	244,706
Water rights	165,652
Construction work in progress	<u>3,607,692</u>
Total non-depreciable assets	4,018,050

Depreciable assets

Water plant in service	32,480,498
Sewer plant in service	37,924,322
Administrative and general	<u>2,096,035</u>
Total depreciable assets	72,500,855
Less accumulated depreciation	<u>(34,432,244)</u>
Total depreciable assets, net	38,068,611

Total noncurrent assets	<u>42,086,661</u>
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Total assets	70,482,661
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Deferred Outflows of Resources

Deferred outflows of resources - pension and OPEB	1,678,098
Deferred outflows of resources - loss on debt refunding	<u>256,815</u>
Total deferred outflows of resources	<u>1,934,913</u>

Total assets and deferred outflows	<u><u>\$ 72,417,574</u></u>
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See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission  
Statement of Net Position  
June 30, 2021

Liabilities

Current liabilities:	
Accounts payable	\$ 183,885
Accrued expenses	64,891
Customer deposits	298,202
Unpaid claims	14,195
Accrued interest - customer deposits	155,000
Payable from restricted assets:	
Current portion of long-term debt	1,225,327
Accounts payable - construction	<u>225,453</u>
Total current liabilities	2,166,953
Non-current liabilities:	
Long-term debt	34,377,521
Net OPEB liability	1,327,093
Net pension liability	<u>4,216,513</u>
Total non-current liabilities	<u>39,921,127</u>
Total liabilities	42,088,080
Deferred inflows of resources	335,524
Total liabilities and deferred inflows	42,423,604
Net position	
Net investment in capital assets	22,715,763
Restricted for:	
Debt service	702,367
Capital projects	4,528,571
Surplus	187,614
Unrestricted	<u>1,859,655</u>
Total net position	29,993,970
Total liabilities, deferred inflows and net position	<u><u>\$ 72,417,574</u></u>

Shelbyville Municipal Water and Sewer Commission  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2021

Operating revenues	
Water sales	\$ 4,195,852
Sewer sales	3,235,142
Other revenues	<u>151,560</u>
Total operating revenues	7,582,554
Operating expenses	
Direct water expenses	1,953,670
Direct sewer expenses	1,277,400
Administrative expenses	2,277,950
Depreciation - water plant	812,021
Depreciation - sewer plant	959,103
Depreciation - office building	<u>35,841</u>
Total operating expenditures	7,315,985
Operating income	266,569
Non-operating revenues (expenses):	
Interest income	14,426
Interest expense	(536,604)
Capital contributions	154,196
Sewer debt tap on fees	193,490
Tap on fees	182,688
Debt administration fees	<u>(207,384)</u>
Total non-operating revenues (expenses):	<u>(199,188)</u>
Income before transfers	67,381
Transfers out- City of Shelbyville	<u>(152,451)</u>
Net change in net position	(85,070)
Net position, June 30, 2020	<u>30,079,040</u>
Net position, June 30, 2021	<u><u>\$ 29,993,970</u></u>



Shelbyville Municipal Water and Sewer Commission  
Statement of Cash Flows  
For the Year Ended June 30, 2021

Cash flows from operating activities:	
Cash received from customers	\$ 7,631,521
Cash payments to suppliers for goods and services	(3,881,982)
Cash payments to employees	<u>(696,810)</u>
Net cash provided by operating activities	3,052,729
Cash flows from noncapital financing activities	
Transfer to City of Shelbyville	<u>(152,451)</u>
Net cash used by noncapital financing activities	(152,451)
Cash flows from capital and related financing activities	
Capital contributions	154,196
Tap on fees	182,688
Purchase of capital assets	(3,070,994)
Proceeds from long-term debt	26,745,000
Principal payments on long-term debt	(7,351,828)
Interest payments on long-term debt	(518,701)
Debt administration fees	<u>(207,384)</u>
Net cash provided in capital and related financing activities	15,932,977
Cash flows from investing activities	
Interest received	<u>14,426</u>
Net cash provided by investing activities	14,426
Net increase in cash	18,847,681
Cash, beginning of year	<u>8,541,363</u>
Cash, end of year	<u><u>\$ 27,389,044</u></u>
Shown in the financial statements as:	
Operating cash and cash equivalents	\$ 3,324,193
Restricted cash	<u>24,064,851</u>
	<u><u>\$ 27,389,044</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 266,569
Adjustments:	
Depreciation	1,806,965
Change in assets and liabilities:	
Accounts receivable	89,692
Inventory	4,020
Prepaid expenses	125,856
Other receivables	(40,360)
Deferred outflows	(419,870)
Accounts payable	155,792
Customer deposits	(365)
Accrued expenses, interest, and unpaid claims	22,250
Net pension liability	676,782
Net OPEB liability	480,784
Deferred inflows	<u>(115,386)</u>
Net cash provided by operating activities	<u><u>\$ 3,052,729</u></u>

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

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, 2021

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 \$140,000 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 estimated to \$50,442 at June 30, 2020. 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.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

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.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

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, 2021, all the Commission's \$27,389,044 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 2017 – This fund shall be maintained to account for the proceeds from 2017 General Obligation Bond.
- f. 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, 2021

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	5,965,442
Purification system	3,335,116
Dam and line	300,409
Miscellaneous structures	44,809
Pumping equipment	2,765,975
Distribution mains	9,403,444
Services and meters	3,980,245
Hydrants	499,184
Total water plant and land	<u>\$ 32,601,078</u>

Sewer Plant and Land

Land	\$ 124,126
Structures	11,762,047
Distribution lines	14,538,315
Manholes	1,157,190
Disposal plant equipment	10,457,653
Office furniture and fixtures	9,117
Total sewer plant and land	<u>\$ 38,048,448</u>

Administrative and general

Land improvements and building	\$ 696,862
Office furniture and fixtures	375,016
Transportation equipment	640,826
Shop equipment	383,330
Total administrative and general	<u>\$ 2,096,035</u>

Construction in progress

Water plant	\$ 2,531,508
Sewer plant	1,076,184
Total construction in progress	<u>\$ 3,607,692</u>

Water rights	<u>\$ 165,652</u>
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Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 4 – Utility Plant and Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2021 is as follows:

	Balance June 30, 2020	Additions	Deductions	Balance June 30, 2021
Capital assets not being depreciated				
Land	\$ 244,706	\$ -	\$ -	\$ 244,706
Water rights	165,652	-	-	165,652
Construction in process	2,475,412	2,360,647	(1,228,368)	3,607,692
Total capital assets not being depreciated	<u>2,885,770</u>	<u>2,360,647</u>	<u>(1,228,368)</u>	<u>4,018,050</u>
Depreciable assets:				
Water plant in service	30,801,889	1,678,608		32,480,497
Sewer plant in service	37,750,832	173,490		37,924,322
Administrative and general	2,091,722	4,313		2,096,035
Total depreciable assets	<u>70,644,443</u>	<u>1,856,411</u>	<u>-</u>	<u>72,500,855</u>
Total capital assets	<u>73,530,213</u>	<u>4,217,058</u>	<u>(1,228,368)</u>	<u>76,518,905</u>
Accumulated depreciation:				
Water plant in service	(14,704,490)	(812,020)		(15,516,510)
Sewer plant in service	(16,679,586)	(959,103)		(17,638,689)
Administrative and general	(1,241,204)	(35,841)		(1,277,045)
Total accumulated depreciation	<u>(32,625,280)</u>	<u>(1,806,964)</u>	<u>-</u>	<u>(34,432,244)</u>
Capital assets, net	<u>\$ 40,904,933</u>	<u>\$ 2,410,094</u>	<u>\$ (1,228,368)</u>	<u>\$ 42,086,661</u>

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 5 – Long-Term Debt

On September 9, 2004, the City of Shelbyville entered into a variable rate lease agreement with the Kentucky League of Cities Funding Trust as lessor. Under the agreement revenue bonds of \$8,500,000 were sold at par. Proceeds were used for water treatment plant improvements and wastewater treatment plant expansion and improvements.

The bonds sold under the lease agreement will be retired over twenty-four (24) years with variable interest rates. The assumed rate of interest for base rental payments is 3.75%. After notice from the lessor, the Commission will pay additional rentals within fifteen (15) days. Any lease rental payment not paid within ten (10) days of the date due shall bear interest thereon up to the maximum rate of fifteen percent per annum. The Lessee will receive credit against the base rental payable on September 20th of each fiscal year in an amount equal to the excess, if any, of the aggregate of the interest components of base rentals paid by the Lessee during the preceding fiscal year (at such assumed rate) over the Lessee's proportionate share of all interest paid on variable rate bonds, and after notice from the Lessor, the Lessee will immediately pay as additional rentals, an amount equal to the excess, if any, of the Lessee's proportionate share of interest paid or to be paid on variable rate bonds over the aggregate of the interest components of base rental then required to be paid by the Lessee (at the then assumed rate). Prior to May 1st of each fiscal year during the lease term, the Lessor will inform the Lessee of the amount of additional rentals that are estimated to be payable during the next ensuing fiscal year. The annual base period rentals, including interest and fiduciary fees, under the agreement range from \$17,372 to \$97,637.

The lease purchase agreements require debt service coverage of 1.20. The debt service coverage is computed by dividing operating income before depreciation and interest on long-term debt by the maximum annual principle and interest coming due on all system debt outstanding in any year (including base rentals.)

On April 21, 2021 the Commission refinanced this debt 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.



Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 5 – Long-Term Debt (continued)

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.

At June 30, 2021, the Commission had the following outstanding debt:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2022	\$ 1,225,328	\$ 894,937	\$ 2,120,265
2023	1,225,712	872,672	2,098,384
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
2027-2031	7,228,791	3,309,277	10,538,068
2032-2036	7,854,229	2,277,857	10,132,086
2037-2041	6,006,242	1,338,250	7,344,492
2042-2046	3,860,000	776,931	4,636,931
2047-2051	4,325,000	312,906	4,637,906
Total	<u>\$ 35,602,848</u>	<u>\$ 12,202,555</u>	<u>\$ 47,805,403</u>

A summary of changes in long-term liabilities of the Commission as of June 30, 2021 is as follows:

Lease/Bond obligations	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within a year</u>
Bond Series 2004	\$ 6,889,296	\$ -	\$ 6,889,296	\$ -	\$ -
Bond Series 2015	3,422,918	-	187,083	3,235,835	192,083
Bond Series 2017	5,898,537	-	254,649	5,643,888	263,035
Bond Series 2021	-	20,250,000	-	20,250,000	515,000
KBC Bond 2021	-	6,495,000	21,875	6,473,125	255,210
	<u>\$ 16,210,751</u>	<u>\$ 26,745,000</u>	<u>\$ 7,352,903</u>	<u>\$ 35,602,848</u>	<u>\$ 1,225,328</u>

Note 6 – 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.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 6 – Retirement Plan (continued)

*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.

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, 2021.

Contribution rates are as follows:

	Employee	Employer
Non-hazardous	5.0%-6.0%	24.06%

The Commission's contribution for the fiscal year ended June 30, 2021 amounted to \$418,233, of which \$346,416 was contributed by the Commission and \$71,818 by the Commission's employees.

For the fiscal year, ended June 30, 2021 the Commission's covered payroll for non-hazardous positions was \$1,439,799.

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

At June 30, 2021, the Commission reported a liability of \$4,216,513 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Commission's proportion was 0.055 percent for non-hazardous.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 6 – Retirement Plan (continued)

For the year ended June 30, 2021, the Commission recognized pension expense as follows.

Required cash contributions to the plan	\$	346,341
Commission's proportionate share of plan's pension expense (non-cash)		622,310
Total pension expense	\$	968,651

At June 30, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 230,068	\$ 1,739
Differences between expected and actual results	105,147	-
Changes of assumptions	164,649	-
Net difference between projected and actual earnings on Plan investments	182,773	77,259
Commission's contributions subsequent to the measurement date	277,821	-
Total	\$ 960,458	\$ 78,998

The \$277,821 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, 2022. 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,	
2022	\$ 289,072
2023	207,662
2024	64,528
2025	42,377

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.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 6 - Retirement Plan (continued)

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, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 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 11.55%, varies by service
Investment Rate of Return	6.25%

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 2010.

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.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 6 – Retirement Plan (continued)

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	4.50%	18.75%
Non-U.S. Equity	5.25%	18.75%
Core Bonds	-0.25%	13.50%
Specialty Credit/ High Yield	3.90%	15.00%
Real Estate	5.30%	5.00%
Opportunistic Return	2.25%	3.00%
Real Return	3.95%	15.00%
Private Equity	6.65%	10.00%
Cash	-0.75%	1.00%
		<u>100.00%</u>

*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%	\$ 5,199,908
Current discount rate	6.25%	\$ 4,216,513
1% increase	7.25%	\$ 3,402,261

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 6 – Retirement Plan (continued)

*Payables to the pension plan:* At June 30, 2021, the Commission reported a payable including insurance contributions of approximately \$35,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

*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](http://www.kyret.ky.gov).

Note 7 – Other Post-Employment Benefits (OPEB)

At June 30, 2021, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Inflows of Resources	\$ 256,526
Deferred Outflows of Resources	\$ 717,640
Net OPEB Liability:	\$ 1,327,093

*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. 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, 2020 was 4.76% (non-hazardous) of covered payroll. Contributions to the Insurance Fund from the Commission were \$67,029 for the year ended June 30, 2020 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).

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 7 – Other Post-Employment Benefits (OPEB)

*Net OPEB Liability*

For financial reporting the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, 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, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 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 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	
Pre--65 ultimate	Initial trend starting at 7.00% and gradually decreasing to an trend rate of 4.05% over a period of 12 years.
Post – 65 ultimate	Initial trends starting at 5.00% and gradually decreasing to an Trend rate of 4.05% over a period of 10 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.

*Discount Rate*

Single discount rate of 5.34% for the non-hazardous system was used to measure the total OPEB liability as of June 30, 2020. 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 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. 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

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 7 – Other Post-Employment Benefits (OPEB) (Continued)

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:

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	4.50%	18.75%
Non-U.S. Equity	5.25%	18.75%
Core Bonds	-0.25%	13.50%
Specialty Credit/ High Yield	3.90%	15.00%
Real Estate	5.30%	5.00%
Opportunistic Return	2.25%	3.00%
Real Return	3.95%	15.00%
Private Equity	6.65%	10.00%
Cash	-0.75%	1.00%
		<u>100.00%</u>

*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 (4.34%) or one percentage point higher (6.34%) follows:

	Discount Rate	Commission's proportionate share of net OPEB liability
1% decrease	4.34%	\$ 1,704,925
Current discount rate	5.34%	\$ 1,327,093
1% increase	6.34%	\$ 1,016,767



Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 7 – Other Post-Employment Benefits (OPEB) (Continued)

*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(6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

Healthcare Cost Trend Rate	Commission's proportionate share of net OPEB liability
1% decrease	\$ 1,027,501
Current healthcare rate	\$ 1,327,093
1% increase	\$ 1,690,654

*OPEB Expense and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2021, the Commission recognized OPEB expense of \$203,162. At June 30, 2021, 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	\$ 92,796	\$ 6,141
Implicit subsidy	32,570	-
Differences between expected and actual results	221,729	221,902
Changes of assumptions	230,836	1,404
Net difference between projected and actual earnings on Plan investments	71,189	27,079
District contributions subsequent to the measurement date	68,520	-
Total	\$ 717,640	\$ 256,526

The \$68,520 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, 2022. 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,	
2022	\$ 96,175
2023	109,229
2024	84,175
2025	73,979
2026	(3,535)
Thereafter	-

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 7 – Other Post-Employment Benefits (OPEB) (Continued)

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 8 – 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, 2021 were \$152,451.

Note 9 – 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, 2021.

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:

	<i>Claims Liability</i>
Liability Balance, June 30, 2020	\$ 3,773
Claims and changes in estimates	219,727
Claims payments	(209,305)
Liability Balance, June 30, 2021	\$ 14,195

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2021

Note 10 – 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 11 – Recently Issued Accounting Standards Update

GASB Statement No. 87—In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required 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, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after June 15, 2021. The Commission has not determined the effect of this pronouncement.

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- Subsequent Events

The Commission has evaluated and considered the need to recognize or disclose subsequent events through January 24, 2022 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, 2021, 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 Seven 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>
	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%
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
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
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%
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%

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

	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
	<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
Contributions in relation to the contractually required contribution	\$ (133,295)	\$ (134,229)	\$ (159,235)	\$ (181,205)	\$ (205,985)	\$ (271,777)	\$ (277,881)
Contribution deficiency (excess)	<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
Contributions as a percentage of covered employee	12.78%	12.42%	13.95%	14.49%	16.22%	19.30%	19.30%

Shelbyville Municipal Water and Sewer Commission  
Schedule of the Commission's OPEB Contributions  
County Employees' Retirement System  
Last Four 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>
Contractually required contribution	\$ 58,817	\$ 66,799	\$ 67,029	\$ 68,534
Contributions in relation to the contractually required contribution	<u>(58,817)</u>	<u>(66,799)</u>	<u>(67,029)</u>	<u>(68,534)</u>
Contribution deficiency (excess)	<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
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	4.76%

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)

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



## **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, 2021

	Budget	Actual	Variance - Over (Under)
Operating Revenue			
Water sales	\$ 3,964,900	\$ 4,195,852	\$ 230,952
Sewer sales	3,330,000	3,235,142	(94,858)
Other revenues	135,000	151,560	16,560
Total Operating Revenue	7,429,900	7,582,554	152,654
Operating Expenses			
Direct water expenses	1,805,161	1,953,670	148,509
Direct sewer expenses	1,172,744	1,277,400	104,656
Administrative expenses	1,695,107	2,277,950	582,843
Depreciation - water plant	740,000	812,021	72,021
Depreciation - sewer plant	950,000	959,103	9,103
Depreciation - office building	42,000	35,841	(6,159)
Total Operating Expenditures	6,405,012	7,315,985	910,973
Operating Income	1,024,888	266,569	(758,319)
Non-operating revenues (expenses):			
Interest income	150,000	14,426	(135,574)
Interest expense	(540,872)	(536,604)	4,268
Capital contributions	-	154,196	154,196
Tap on fees	-	376,178	376,178
Debt administration fees	(72,000)	(207,384)	(135,384)
Total Non-Operating Revenues (Expenses):	(462,872)	(199,188)	263,684
Income Before Transfers	562,016	67,381	(494,635)
Transfers out- City of Shelbyville	(150,000)	(152,451)	(2,451)
Net Change in Net Position	412,016	(85,070)	\$ (497,086)
Net Position, June 30, 2020	30,079,040	30,079,040	
Net Position, June 30, 2021	\$ 30,491,056	\$ 29,993,970	

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, 2021

	Budget	Actual	Variance - Over (Under)
<b>Water Sales:</b>			
Industrial sales	\$ 425,000	\$ 397,885	\$ (27,115)
Residential sales	2,400,000	2,489,873	89,873
Commercial sales	350,000	285,449	(64,551)
Sales to West Shelby Water District	200,000	161,097	(38,903)
Sales to Noth Shelby Water District	250,000	279,079	29,079
Sales to East US 60 Water District	160,000	384,508	224,508
Private fire protection	130,000	142,862	12,862
Public fire protection	5,400	5,418	18
Other water sales	44,500	49,681	5,181
<b>Total Water Sales</b>	<b>3,964,900</b>	<b>4,195,852</b>	<b>230,952</b>
<b>Sewer Service</b>			
Industrial service	550,000	432,822	(117,178)
Residential service	2,000,000	2,085,363	85,363
Commercial service	580,000	446,693	(133,307)
Sewer pretreatment program	75,000	81,186	6,186
Other sewer service	125,000	189,078	64,078
<b>Total Sewer Service</b>	<b>3,330,000</b>	<b>3,235,142</b>	<b>(94,858)</b>
<b>Other Revenues</b>			
Water meter turn ons	50,000	35,850	(14,150)
Miscellaneous income	20,000	71,331	51,331
Handling late fee	45,000	24,414	(20,586)
Rental income	20,000	19,965	(35)
<b>Total Other Revenues</b>	<b>\$ 135,000</b>	<b>\$ 151,560</b>	<b>\$ 16,560</b>

Shelbyville Municipal Water and Sewer Commission  
Schedule of Operating Expenses - Budget to Actual  
For the Year Ended June 30, 2021

	Budget	Actual	Variance - Over (Under)
Direct Water Expenses:			
Direct Water Purchased	\$ 240,000	\$ 435,241	\$ 195,241
Operation, supervision and engineering	6,000	73,768	67,768
Source of supply and pumping labor	241,000	247,831	6,831
Laboratory expense	102,400	79,541	(22,859)
Operating supplies	290,000	256,861	(33,139)
Maintenance - structures	84,501	96,181	11,680
Maintenance - pumping and filtering	58,001	48,043	(9,958)
Power	200,000	181,595	(18,405)
Maintenance - water mains	147,054	68,505	(78,549)
Maintenance - services and meters	89,800	87,587	(2,213)
Maintenance - hydrants	16,200	18,660	2,460
Meter readings	100,002	83,387	(16,615)
Sludge removal	72,000	133,436	61,436
Misc. labor	73,203	53,959	(19,244)
Vacation, holiday and sick-pay	85,000	89,075	4,075
	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total Direct Water Expenses	<u>\$ 1,805,161</u>	<u>\$ 1,953,670</u>	<u>\$ 148,509</u>

Shelbyville Municipal Water and Sewer Commission  
Schedule of Operating Expenses - Budget to Actual  
For the Year Ended June 30, 2021

	Budget	Actual	Variance - Over (Under)
Direct Sewer Expenses:			
Operation, supervision and engineering	\$ 2,400	\$ 1,306	\$ (1,094)
Sewer plant labor	137,917	145,229	7,312
Laboratory expense	38,004	30,680	(7,324)
Operating supplies	209,997	246,531	36,534
Maintenance - structures	41,429	38,553	(2,876)
Maintenance - disposal plant equipment	65,914	87,173	21,259
Power	190,000	187,793	(2,207)
Power - SD pump station	92,900	85,863	(7,037)
Maintenance - sewer mains	35,429	57,620	22,191
Maintenance - sewer manholes	4,800	3,084	(1,716)
Maintenance - pump stations	28,820	35,193	6,373
Maintenance - SD pump stations	24,611	957	(23,654)
Maintenance - flow monitoring	7,200	5,925	(1,275)
Pretreatment expense	32,600	37,852	5,252
Chronic tox testing	20,700	6,590	(14,110)
Sludge removal	122,106	190,137	68,031
Vacation, holiday and sick-pay	36,983	49,215	12,232
Labor - comm pump station	21,834	24,894	3,060
Pretreatment outside lab expense	20,700	11,828	(8,872)
Materials comm pump station	36,000	29,802	(6,198)
Maintenance - SD mains	2,400	581	(1,819)
Materials flow monitoring	-	594	594
Materials SD mains	-	-	-
<b>Total Direct Sewer Expenses</b>	<b>\$ 1,172,744</b>	<b>\$ 1,277,400</b>	<b>\$ 104,656</b>

Shelbyville Municipal Water and Sewer Commission  
Schedule of Operating Expenses - Budget to Actual  
For the Year Ended June 30, 2021

	Budget	Actual	Variance - Over (Under)
Administrative Expenses:			
Office salaries	\$ 138,507	\$ 141,782	\$ 3,275
Office supplies and expenses	84,000	82,909	(1,091)
Uncollectible revenue	360	103,586	103,226
Management salaries	138,001	140,960	2,959
Management training	8,000	13,294	5,294
Legal and accounting	66,000	67,854	1,854
Commission member fees	36,000	37,645	1,645
Insurance	152,060	148,617	(3,443)
Employee insurance	240,000	151,753	(88,247)
Employee retirement	363,996	968,651	604,655
Miscellaneous expenses	98,000	116,334	18,334
Maintenance - general properties	12,000	2,017	(9,983)
Maintenance - safety equipment	21,000	18,997	(2,003)
Safety training	6,000	1,881	(4,119)
Truck and equipment expenses	120,000	94,695	(25,305)
Distribution shop supplies	36,000	20,771	(15,229)
Cash short over	800	(261)	(1,061)
Office utilities	7,800	6,617	(1,183)
Payroll taxes	118,463	118,721	258
Vacation, holiday and sick-pay	21,000	16,806	(4,194)
Office janitorial	12,000	12,450	450
Office cleaning supplies	120	1,977	1,857
Office maintenance	15,000	9,894	(5,106)
Total Administrative Expenses	<u>\$ 1,695,107</u>	<u>\$ 2,277,950</u>	<u>\$ 582,843</u>

Shelbyville Municipal Water and Sewer Commission  
Board of Commissioners  
June 30, 2021

	<u>Term Expires</u>
Mayor David Eaton	December 31, 2021
Wayne Stratton	June 30, 2023
Gil Tucker	June 30, 2021
Danny Eades	June 30, 2021
Val Owens	June 30, 2023
Al Andrews	June 30, 2021
Jon Swindler	December 31, 2020

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, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated January 24, 2022.

### **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 opinions 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 may exist that have not been 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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  
January 24, 2022