

**Shelbyville Municipal Water and Sewer Commission**

**Shelbyville, Kentucky**

Financial Statements

And Independent Auditors' Report

For the Year Ended

June 30, 2024

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	7-8
Notes to the Basic Financial Statements	9-26
Required Supplementary Information:	
Schedule of the Commission's Proportionate Share of the Net Pension Liability	27
Schedule of the Commission's Pension Contributions	28
Schedule of the Commission's Proportionate Share of the Net OPEB Asset	29
Schedule of the Commission's OPEB Contributions	30
Other Supplementary Information:	
Schedule of Revenues, Expenses and Change in Net Position – Budget and Actual	31
Schedule of Operating Revenues - Budget and Actual	32
Schedule of Operating Expenses – Budget and Actual	33-35
Schedule of Expenditures of Federal Awards	36
Independent Auditors' 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>	37
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	38-39
Schedule of Findings and Questioned Costs	40
Board of Commissioners	41

## 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, 2024, 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, 2024, 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.

#### ***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 pages 27-28 and the OPEB schedules on pages 29-30 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 Net Position – Budget and Actual, the Schedule of Operating Revenues – Budget and Actual, the Schedule of Operating Expenses – Budget and Actual, and the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 31 – 36 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 Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual, the Schedule of Operating Revenues – Budget and Actual, the Schedule of Operating Expenses – Budget and Actual, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 March 1, 2025 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  
March 1, 2025

Shelbyville Municipal Water and Sewer Commission  
Statement of Net Position  
June 30, 2024

Assets

Current assets:	
Operating cash and cash equivalents	\$ 2,382,776
Trade accounts receivable, net	735,541
Inter-governmental receivables	361,579
Other receivables	42,406
Materials inventory	65,717
Prepaid expenses	1,923
Lease receivables - current	17,141
Total current assets	3,607,083
Restricted cash and cash equivalents	
Debt service fund	594,740
WWTP Bond funds	8,154,515
Depreciation fund	1,383,653
Surplus fund	160,883
System development charge	1,550,745
Special bond account	5,116,840
Total restricted cash and cash equivalents	16,961,376
Non-current assets:	
Capital assets:	
Land	244,706
Water rights	165,652
Construction work in progress	23,201,213
Total non-depreciable assets	23,611,571
Depreciable assets	
Water plant in service	41,459,933
Sewer plant in service	43,929,625
Administrative and general	3,144,161
Total depreciable assets	88,533,719
Less accumulated depreciation	(40,274,646)
Total depreciable assets, net	48,259,073
Lease receivables - noncurrent	230,511
Net OPEB asset	76,530
Total noncurrent assets	72,177,685
Total assets	92,746,144
Deferred Outflows of Resources	
Deferred outflows of resources - pension and OPEB	1,520,027
Deferred outflows of resources - loss on debt refunding	246,409
Total deferred outflows of resources	1,766,436
Total assets and deferred outflows	\$ 94,512,580

Shelbyville Municipal Water and Sewer Commission  
Statement of Net Position  
June 30, 2024

Liabilities

Current liabilities:	
Accounts payable	\$ 310,014
Accrued expenses	102,629
Customer deposits	308,105
Unpaid claims	24,271
Accrued interest - customer deposits	180,833
Accrued interest - bonds	32,799
Payable from restricted assets:	
Current portion of long-term debt	961,250
Accounts payable - construction	<u>1,108,936</u>
Total current liabilities	3,028,837
Non-current liabilities:	
Due to the City of Shelbyville	5,500,000
Long-term debt	39,485,614
Net pension liability	<u>3,556,863</u>
Total non-current liabilities	<u>48,542,477</u>
Total liabilities	<u>51,571,314</u>
Deferred Inflows of Resources	
Deferred inflows of resources - pension and OPEB	2,226,643
Deferred inflows - leases	<u>209,103</u>
Total deferred inflows	<u>2,435,746</u>
Total liabilities and deferred inflows	54,007,060
Net position	
Net investment in capital assets	39,578,295
Restricted for:	
Debt service	594,740
Capital projects	3,008,511
Surplus	160,883
Unrestricted	<u>(2,836,909)</u>
Total net position	<u>40,505,520</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 94,512,580</u></u>

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission  
Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2024

Operating revenues	
Water sales	\$ 4,919,887
Sewer sales	3,753,438
Other revenues	226,589
	8,899,914
 Total operating revenues	 8,899,914
 Operating expenses	
Direct water expenses	2,472,971
Direct sewer expenses	1,593,559
Administrative expenses	1,666,231
Depreciation - water plant	849,537
Depreciation - sewer plant	1,033,481
Depreciation - office building	170,824
	7,786,603
 Total operating expenditures	 7,786,603
 Operating income	 1,113,311
 Non-operating revenues (expenses):	
Interest income	752,426
Grant revenue	1,473,176
Interest expense	(1,370,848)
Capital contributions	5,430,698
Sewer debt tap on fees	651,174
Tap on fees	526,392
Debt administration fees	(58,055)
	7,404,963
 Total non-operating revenues (expenses):	 7,404,963
 Income before transfers	 8,518,274
Transfers out- City of Shelbyville	(163,505)
	8,354,769
 Net change in net position	 8,354,769
 Net position, July 1, 2023	 32,150,751
	32,150,751
 Net position, June 30, 2024	 \$ 40,505,520
	40,505,520

See accompanying notes to the financial statements.



Shelbyville Municipal Water and Sewer Commission  
Statement of Cash Flows  
For the Year Ended June 30, 2024

Cash flows from operating activities:	
Cash received from customers	\$ 8,883,147
Cash payments to suppliers for goods and services	(4,198,302)
Cash payments to employees	<u>(2,118,277)</u>
Net cash provided by operating activities	2,566,568
Cash flows from noncapital financing activities	
Transfer to City of Shelbyville	<u>(163,505)</u>
Net cash used by noncapital financing activities	(163,505)
Cash flows from capital and related financing activities	
Capital contributions	5,430,698
Tap on fees	1,177,566
Purchase of capital assets	(18,480,974)
Payments on lease receivable	21,962
Proceeds from City of Shelbyville	5,500,000
Principal payments on long-term debt	(936,249)
Interest payments on long-term debt	(1,320,983)
Inter-governmental receivables	1,111,597
Debt administration fees	<u>(58,055)</u>
Net cash used in capital and related financing activities	(7,554,438)
Cash flows from investing activities	
Interest received	<u>752,426</u>
Net cash provided by investing activities	752,426
Net decrease in cash	(4,398,949)
Cash, beginning of year	<u>23,743,101</u>
Cash, end of year	<u><u>\$ 19,344,152</u></u>
Shown in the financial statements as:	
Operating cash and cash equivalents	\$ 2,382,776
Restricted cash and cash equivalents	<u>16,961,376</u>
	<u><u>\$ 19,344,152</u></u>

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission  
Statement of Cash Flows  
For the Year Ended June 30, 2024

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,113,311
Adjustments:	
Depreciation	2,053,842
Change in assets and liabilities:	
Trade accounts receivable	2,190
Materials inventory	(33,407)
Prepaid expenses	178,794
Other receivables	(3,429)
Deferred outflows - pension and opeb	57,726
Accounts payable	(393,361)
Customer deposits	3,338
Accrued expenses	(14,944)
Accrued Interest	9,279
Unpaid Claims	(13,623)
Net pension liability	(290,924)
Net OPEB liability/asset	(1,126,794)
Deferred inflows - pension and opeb	1,043,436
Deferred inflows - leases	(18,866)
Net cash provided by operating activities	<u>\$ 2,566,568</u>

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

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 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, 2024

Note 1 - Summary of Significant Accounting Policies (Continued)

Trade 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.

Inter-governmental Receivables

Inter-governmental receivables are reported at the amount expected to be reimbursed to the Commission through reimbursement grants from Kentucky Infrastructure Authority ("KIA"). The Inter-governmental receivable balance is \$361,579 at June 30, 2024. The Commission recognizes revenue from Inter-governmental receivables once reimbursed funds are earned from completion of work related to grant contracts with KIA.

Other Receivables

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, 2024. 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:

<u>Class</u>	
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, 2024

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 asset, 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.

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.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 2 – Custodial Credit Risk – Deposits (continued)

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, 2024, all the Commission's \$19,341,905 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. WWTP bond funds – This fund shall be maintained by the Commission for construction related to Contract 117.
- c. Depreciation fund – This fund shall be maintained by the Commission for equipment replacement and construction.
- d. System development charge – This fund shall be maintained by the Commission for improvements and ongoing construction for improvements to the System.
- e. 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.
- f. Special bond account - This fund shall be maintained by the Commission for ongoing construction for contracts. This fund is sourced from proceeds of a Bond Anticipation Note ("BAN") borrowed by the City of Shelbyville, Kentucky. Further detail is provided in Note 7.

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	673,538
Standpipes	6,579,638
Purification system	5,683,065
Dam and line	332,441
Miscellaneous structures	67,199
Pumping equipment	2,799,622
Distribution mains	13,984,268
Services and meters	5,118,259
Hydrants	679,817
Total water plant and land	\$ 41,580,513

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 4 – Utility Plant and Capital Assets (Continued)

Sewer Plant and Land	
Land	\$ 124,126
Structures	11,930,139
Distribution lines	19,097,875
Manholes	1,665,680
Disposal plant equipment	11,226,814
Office furniture and fixtures	9,117
Total sewer plant and land	\$ 44,053,751
Administrative and general	
Land improvements and building	\$ 590,876
Office furniture and fixtures	428,817
Transportation equipment	1,306,406
Shop equipment	490,241
Shop building	305,590
Safety Equipment	22,231
Total administrative and general	\$ 3,144,161
Construction in progress	
Water plant	\$483,198
Sewer plant	22,718,015
Total construction in progress	\$ 23,201,213
Water rights	\$ 165,652

Capital assets activity for the year ended June 30, 2024 is as follows:

	Balance			Balance
	June 30, 2023	Additions	Deductions	June 30, 2024
Capital assets not being depreciated				
Land	\$ 244,706	\$ -	\$ -	\$ 244,706
Water rights	165,652	-	-	165,652
Construction in process	12,890,396	17,460,187	(7,149,370)	23,201,213
Total capital assets not being depreciated	13,300,754	17,460,187	(7,149,370)	23,611,571
Depreciable assets:				
Water plant in service	38,279,336	3,180,597	-	41,459,933
Sewer plant in service	39,202,933	4,726,692	-	43,929,625
Administrative and general	2,881,293	262,868	-	3,144,161
Total depreciable assets	80,363,562	8,170,157	-	88,533,719
Total capital assets	93,664,316	25,630,344	(7,149,370)	112,145,290
Accumulated depreciation:				
Water plant in service	(16,927,770)	(849,538)	-	(17,777,308)
Sewer plant in service	(19,583,379)	(1,033,480)	-	(20,616,859)
Administrative and general	(1,709,655)	(170,824)	-	(1,880,479)
Total accumulated depreciation	(38,220,804)	(2,053,842)	-	(40,274,646)
Capital assets, net	\$ 55,443,512	\$ 23,576,502	\$(7,149,370)	\$ 71,870,644

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 5 – Lease Receivables

The Commission is reporting a lease receivable of \$247,652 at June 30, 2024. The lease is summarized as follows:

<u>Lease</u>	<u>Lease Receivable</u>	<u>Lease Revenue</u>	<u>Lease Interest Revenue</u>
Water tank attachment (Cell Tower)	\$ 247,652	\$ 18,866	\$ 5,161
Total	<u>\$ 247,652</u>	<u>\$ 18,866</u>	<u>\$ 5,161</u>

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.

Future minimum lease payments to be received are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 17,141	\$ 4,820
2026	19,519	4,456
2027	20,101	4,056
2028	20,509	3,649
2029	20,926	3,233
Thereafter	<u>149,456</u>	<u>9,582</u>
Total	<u>\$ 247,652</u>	<u>\$ 29,796</u>

The deferred inflows of resources will be recognized over the term of the lease agreement as lease revenue. During 2024, the Commission recognized \$5,161 of interest revenue and \$18,866 of lease revenue from the lease agreements.

Note 6 – Long-Term Debt

Bond Series 2021

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, 2024 was \$18,715,000.

Bond Series 2021B

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 began in June 2021 at an interest rate of 3% and will be paid back across 20 years with a maturity of February 2041. The balance of the bond at June 30, 2024 was \$5,711,667.



Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 6 – Long-Term Debt (Continued)

Bond Series 2022C

In July 2022, the City of Shelbyville, Kentucky, for and on behalf of the Commission issued Kentucky Bond Corporation General Obligation Lease, Series 2022C in the principal amount of \$3,160,000 to pay off Bond Series 2015. Interest on the bond shall accrue at between 4% - 5% per annum and will mature in 20 years. Principal and interest are payable on a semi-annual basis. The balance of Bond Series 2022C at June 30, 2024 was \$2,969,167. The net proceeds of \$3,202,876 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2015 Series bonds. As a result, the 2015 Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. At June 30, 2024, \$2,837,500 of the defeased bonds are still outstanding.

Bond Series 2022D

In July 2022, the City of Shelbyville, Kentucky, for and on-behalf of the Commission issued Kentucky Bond Corporation General Obligation Lease, Series 2022D in the principal amount of \$13,420,000 to pay off Bond Series 2017 and to provide additional funding for the construction of a new wastewater treatment plant. Interest on the bond shall accrue at between 4.25% - 4.50% per annum and will mature in 30 years. Principal and interest are payable on a semi-annual basis. The balance of the bond at June 30, 2024 was \$13,340,000. \$7,575,188 of the net proceeds were deposited with the Commission to be used for future projects. \$5,370,288 of the net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2017 Series bonds. As a result, the 2017 Series bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. At June 30, 2024, \$4,828,954 of the defeased bonds were still outstanding.

At June 30, 2024, the Commission had the following outstanding debt:

Future maturities of long-term debt is as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2025	\$ 961,250	\$ 1,298,062	\$ 2,259,312
2026	984,165	1,272,604	2,256,769
2027	1,013,333	1,246,534	2,259,867
2028	1,043,336	1,219,668	2,263,004
2029	1,073,335	1,191,762	2,265,097
2030-2034	5,833,752	5,502,353	11,336,105
2035-2039	6,734,169	4,634,693	11,368,862
2040-2044	6,324,993	3,563,065	9,888,058
2045-2049	8,325,000	2,141,558	10,466,558
2050-2052	8,442,501	438,913	8,881,414
Total	<u>\$ 40,735,834</u>	<u>\$ 22,509,212</u>	<u>\$ 63,245,046</u>

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 6 – Long-Term Debt (Continued)

A summary of changes in long-term liabilities of the Commission as of June 30, 2024 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 2021	19,230,000	-	515,000	18,715,000	525,000
KBC Bond 2021B	5,968,750	-	257,083	5,711,667	264,167
KBC Bond 2022C	3,076,250	-	107,083	2,969,167	112,083
KBC Bond 2022D	<u>13,397,083</u>	<u>-</u>	<u>57,083</u>	<u>13,340,000</u>	<u>60,000</u>
	<u>\$41,672,083</u>	<u>\$ -</u>	<u>\$ 936,249</u>	<u>\$ 40,735,834</u>	<u>\$ 961,250</u>
			Less: unamortized bond discount	(288,970)	
			Less: current portion payable	<u>(961,250)</u>	
			Total long-term portion	<u>\$39,485,614</u>	

Note 7 – Due to the City of Shelbyville, Kentucky

In November 2023, the City of Shelbyville, Kentucky, for and on behalf of the Commission, issued a General Obligation Bond Anticipation Note Series 2023 (BAN), in the principal amount of \$11,400,000 to provide interim financing for the cost of acquisition, construction, installation, and equipping of a wastewater treatment plant and new water and sewer transmission lines. Interest on the note is 4.5% per annum and payable on a semi-annual basis, with the principal amount of the note due November 1, 2026, the maturity date of the note. During the fiscal year, the City of Shelbyville, Kentucky loaned \$5,500,000 to the Commission. This amount is presented as “Due to the City of Shelbyville” as a non-current liability on the statement of net position at June 30, 2024. The full liability of the BAN is recorded as debt of the City of Shelbyville, Kentucky. It is anticipated that the City will issue permanent financing such as issuance of general obligation bonds or general obligation lease on or before the BAN’s final maturity date of November 2026.

Note 8 – Retirement Plan

County Employees’ Retirement System (CERS)

The Commission is a participating employer of the County Employees' Retirement System. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements, which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 8 – Retirement Plan (Continued)

County Employees' Retirement System (CERS) (Continued)

*Contributions* – For the year ended June 30, 2024, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board based on an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined based on a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2024, participating employers contributed 23.34% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The Commission contributed \$422,413 for the year ended June 30, 2024, or 100% of the required contribution. The contribution was allocated \$422,413 to the CERS pension fund and \$0 for the CERS insurance fund.

*Benefits* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 years old
	Reduced retirement	At least 5 years' service and 55 years old 25 years' service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old or age 57+ with sum of service years plus age equal 87+
	Reduced retirement	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old or age 57+ with sum of service years plus age equal 87+
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly of the State of Kentucky. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 8 – Retirement Plan (Continued)

County Employees' Retirement System (CERS) (Continued)

*Benefits (Continued)*

The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Actuarial Methods and Assumptions*

For financial reporting, the actuarial valuation as of June 30, 2023 was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2023 were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023 and include a change in the investment return assumption from 6.25% to 6.50%. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022." The Total Pension Liability as of June 30, 2023, is determined using these updated assumptions.

House Bill 506 passed during the 2023 legislative session and reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024, with the lump-sum options expanded to include 48 or 60 times the member's monthly retirement allowance. Since this optional form of payment results in a reduced, actuarial equivalent, monthly retirement allowance for members who elect a partial lump-sum option, this provision does not have a fiscal impact to the total pension liability.

House Bill 506 also adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month under all circumstances. This is a relatively small change for future retirees in the nonhazardous plans. But as the minimum separation period was previously three months in almost every circumstance, GRS assumed that there would be a one percent (1%) increase in the rate of retirement for each of the first two years a nonhazardous member becomes retirement eligible under the age of 65 in order to reflect a shift in the retirement pattern. The total pension liability as of June 30, 2023, for the nonhazardous plans is determined using these updated benefits provisions.

The actuarial assumptions are:

Inflation	2.50%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.50%

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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 8 – Retirement Plan (Continued)

County Employees' Retirement System (CERS) (Continued)

*Actuarial Methods and Assumptions (Continued)*

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Experience Study	July 1, 2018 to June 30, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent 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%
Phase-in Provision	HB 362 enacted in 2018

*Discount Rate*

The projection of cash flows used to determine the discount rate of 6.50% for CERS Nonhazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 362. 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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Equity		
Public Equity	5.90%	50.00%
Private Equity	11.73%	10.00%
Fixed Income		
Core Fixed Income	2.45%	10.00%
Specialty Credit	3.65%	10.00%
Cash	1.39%	0.00%
Inflation Protected		
Real Estate	4.99%	7.00%
Real Return	5.15%	13.00%
		<u>100.00%</u>

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 8 – Retirement Plan (Continued)

County Employees' Retirement System (CERS) (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 6.50 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	Discount Rate	Commissions proportionate share of net pension liability
1% decrease	5.50%	\$ 4,490,755
Current discount rate	6.50%	\$ 3,556,863
1% increase	7.50%	\$ 2,780,764

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2024, the Commission reported a liability of \$3,556,863 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022. 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, 2023, the Commission's proportion was .00554 percent, which was an increase of .00021 percent from its proportion at June 30, 2022 (.00532 percent).

For the year ended June 30, 2024, the Commission recognized pension expense of \$235,138. At June 30, 2024, 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
Differences between expected and actual results	\$ 97,508	\$ 65,406
Changes of assumptions	184,132	335,654
Changes in proportion and differences between Commission contributions and proportionate share of contributions	384,242	432,760
Commission contributions subsequent to the measurement date	422,413	-
Total	\$ 1,088,295	\$ 833,820

The \$422,413 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, 2025. 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,	
2025	\$ (123,289)
2026	(89,619)
2027	79,404
2028	(34,435)

*Payables to the Pension Plan* – At June 30, 2024, the Commission did not have a payable to the plan.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 9 – Other Post-Employment Benefits (OPEB)

At June 30, 2024, net OPEB asset and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Inflows of Resources	\$ 1,392,823
Deferred Outflows of Resources	\$ 431,732
Net OPEB Asset:	\$ 76,530

*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.

*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, 2024 was 0.00% of covered payroll. Contributions to the Insurance Fund from the Commission were \$0 for the year ended June 30, 2024. 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).

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 9 – Other Post-Employment Benefits (OPEB) (Continued)

*Actuarial Methods and Assumptions*

For financial reporting the actuarial valuation as of June 30, 2023, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

The following actuarial methods and assumptions were used in performing the actuarial valuation as of June 30, 2023:

Inflation	2.50%
Payroll Growth Rate	2.00%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.50%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 8.50% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experiences Study for the Period Ending June 30, 2022". Additionally, the single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. Additional information regarding the single discount rates is provided below. The Total OPEB Liability as of June 30, 2023, is determined using these updated assumptions.

House Bill 506 passed during the 2023 legislative session reinstated the Partial Lump Sum Option form of payment for members who retire on and after January 1, 2024 and adjusted the minimum required separation period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances.

This is a relatively small change for future retirees in the nonhazardous plan. But as the minimum separation period was previously three months in almost every circumstance, GRS assumed that there would be a one percent (1%) increase in the rate of retirement for each of the first two years a nonhazardous member becomes retirement eligible under the age of 65, in order to reflect a shift in the retirement pattern. The total OPEB liability as of June 30, 2023, for the nonhazardous plan is determined using these updated benefit provisions.



Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 9 – Other Post-Employment Benefits (OPEB) (Continued)

*Actuarial Methods and Assumptions (Continued)*

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Experience Study	July 1, 2018 - June 30, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent 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 Rates	
Pre - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

*Discount Rate*

Single discount rate of 5.93% for the CERS non-hazardous insurance plan was used to measure the total OPEB liability as of June 30, 2023. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were 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 plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 9 – Other Post-Employment Benefits (OPEB) (Continued)

*Discount Rate (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 Real Rate of Return	Target Allocation
Equity		
Public Equity	5.90%	50.00%
Private Equity	11.73%	10.00%
Fixed Income		
Core Fixed Income	2.45%	10.00%
Specialty Credit	3.65%	10.00%
Cash	1.39%	0.00%
Inflation Protected		
Real Estate	4.99%	7.00%
Real Return	5.15%	13.00%
		100.00%

*Sensitivity of the Net OPEB Liability/Asset to Changes in the Discount Rate*

The net OPEB liability/asset of the Commission, as well as what the Commission's net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (4.93%) or one percentage point higher (6.93%) follows:

	Discount Rate	Commission's proportionate share of net OPEB liability (asset)
1% decrease	4.93%	\$ 143,618
Current discount rate	5.93%	\$ (76,530)
1% increase	6.93%	\$ (260,878)

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

The net OPEB liability/asset of the Commission, as well as what the Commission's net OPEB liability/asset 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 (asset)
1% decrease	\$ (245,293)
Current healthcare rate	\$ (76,530)
1% increase	\$ 130,779

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 9 – Other Post-Employment Benefits (OPEB) (Continued)

*OPEB Liabilities/Assets, OPEB Expense and Deferred Inflows of Resources Related to OPEB*

At June 30, 2024, the Commission reported a balance of \$76,530 for its proportionate share of the collective net OPEB asset. The collective net OPEB asset was measured as of June 30, 2023, and the total OPEB asset used to calculate the collective net OPEB asset was determined by an actuarial valuation as of that date. The Commission's proportion of the collective net OPEB asset and OPEB expense was determined using the employers' actual contributions for fiscal year 2023. This method to be reflective of the employers' long-term contribution effort. At June 30, 2023, the Commission's proportion was 0.05543%.

For the year ended June 30, 2024, the Commission recognized OPEB benefit of \$124,089. At June 30, 2024, 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	\$ 59,552	\$ 40,225
Implicit subsidy	24,997	-
Differences between expected and actual results	53,353	1,086,655
Changes in assumptions	150,606	104,958
Net difference between projected and actual earnings on Plan investments	143,224	160,985
Commission contributions subsequent to the measurement date	-	-
Total	\$ 431,732	\$ 1,392,823

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2025	\$ (232,501)
2026	(310,368)
2027	(241,228)
2028	(201,991)

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 10 – 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, 2024 was \$163,505.

Shelbyville Municipal Water and Sewer Commission  
Notes to Financial Statements  
June 30, 2024

Note 11 – 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 \$75,000 per covered individual for fiscal year June 30, 2024.

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, 2023	\$ 37,894
Claims and changes in estimates	277,691
Claims payments	(291,314)
Liability Balance, June 30, 2024	\$ 24,271

Note 12 – 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 13 – 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 14 – Subsequent Events

The Commission has evaluated and considered the need to recognize or disclose subsequent events through March 1, 2025 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, 2024, 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 - Non-Hazardous**  
**Last Ten 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	June 30, 2023	June 30, 2024
Commission's proportion of the net pension liability	0.045460%	0.046410%	0.045350%	0.046831%	0.050552%	0.050330%	0.054975%	0.056356%	0.053227%	0.055433%
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	\$3,847,787	\$3,556,863
Commission's covered employee payroll	\$1,042,996	\$1,082,852	\$1,080,750	\$1,141,499	\$1,250,688	\$1,269,947	\$1,408,173	\$1,439,799	\$1,470,700	\$1,634,769
Commission's proportion of the net position liability as a percentage of its covered-employee payroll	141.42%	184.28%	206.40%	240.14%	246.17%	278.73%	299.43%	249.56%	261.63%	217.58%
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%	52.42%	57.48%

**Shelbyville Municipal Water and Sewer Commission  
Schedule of the Commission's Pension Contributions  
County Employees' Retirement System - Non-Hazardous  
Last Ten 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>June 30, 2023</u>	<u>June 30, 2024</u>
Contractually required contribution	\$ 133,295	\$ 134,229	\$ 159,235	\$ 181,205	\$ 205,985	\$ 271,777	\$ 277,881	\$ 311,347	\$ 382,536	\$ 422,413
Contributions in relation to the contractually required contribution	\$ (133,295)	\$ (134,229)	\$ (159,235)	\$ (181,205)	\$ (205,985)	\$ (271,777)	\$ (277,881)	\$ (311,347)	\$ (382,536)	\$ (422,413)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$1,634,769	\$1,809,824
Contributions as a percentage of covered employee	12.78%	12.42%	13.95%	14.49%	16.22%	19.30%	19.30%	21.17%	23.40%	23.34%

**Shelbyville Municipal Water and Sewer Commission  
Schedule of the Commission's Proportionate Share of the Net OPEB Liability (Asset)  
County Employees' Retirement System - Non-Hazardous  
Last Seven Fiscal Years**

	<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>June 30, 2023</u>	<u>June 30, 2024</u>
Commission's proportion of the net OPEB liability	0.046831%	0.05031%	0.05033%	0.05495%	0.05634%	0.05322%	0.05543%
Commission's proportionate share of the net pension liability (asset)	\$ 942,000	\$ 897,558	\$ 846,309	\$ 1,327,093	\$ 1,078,659	\$ 1,050,264	\$ (76,530)
Commission's covered employee payroll	\$ 1,141,499	\$ 1,250,688	\$ 1,269,947	\$ 1,408,173	\$ 1,439,799	\$ 1,470,700	\$ 1,634,769
Commission's proportion of the net position liability (asset) as a percentage of its covered-employee payroll	83%	72%	67%	94%	75%	71%	-5%
Plan fiduciary net position as a percentage of the total pension liability (asset)	52.40%	57.60%	60.40%	51.70%	62.90%	61.00%	-4.63%



**Shelbyville Municipal Water and Sewer Commission  
Schedule of the Commission's OPEB Contributions  
County Employees' Retirement System - Non-Hazardous  
Last Seven Fiscal Years**

	<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>June 30, 2023</u>	<u>June 30, 2024</u>
Contractually required contribution	\$ 58,817	\$ 66,799	\$ 67,029	\$ 68,534	\$ 67,029	\$ 55,419	\$ -
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>(67,029)</u>	<u>(55,419)</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<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	\$1,634,769	\$1,809,824
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	4.76%	4.56%	3.39%	0.00%

## **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, 2024

	Budget	Actual	Variance - Over (Under)
Operating Revenue			
Water sales	\$ 4,630,375	\$ 4,919,887	\$ 289,512
Sewer sales	3,572,500	3,753,438	180,938
Other revenues	137,500	226,589	89,089
Total Operating Revenue	8,340,375	8,899,914	559,539
Operating Expenses			
Direct water expenses	2,355,449	2,472,971	117,522
Direct sewer expenses	1,473,450	1,593,559	120,109
Administrative expenses	1,945,100	1,666,231	(278,869)
Depreciation - water plant	907,200	849,537	(57,663)
Depreciation - sewer plant	979,992	1,033,481	53,489
Depreciation - office building	-	170,824	170,824
Total Operating Expenditures	7,661,191	7,786,603	125,412
Operating Income	679,184	1,113,311	434,127
Non-operating revenues (expenses):			
Interest income	550,000	752,426	202,426
Interest expense	(1,377,731)	(1,370,848)	6,883
Grant revenue	-	1,473,176	1,473,176
Capital contributions	-	5,430,698	5,430,698
Tap on fees	400,000	1,177,566	777,566
Debt administration fees	(58,742)	(58,055)	687
Total Non-Operating Revenues (Expenses):	(486,473)	7,404,963	7,891,436
Income Before Transfers	192,711	8,518,274	8,325,563
Transfers out- City of Shelbyville	(180,500)	(163,505)	16,995
Net Change in Net Position	12,211	8,354,769	\$ 8,342,558
Net Position, June 30, 2023	32,150,751	32,150,751	
Net Position, June 30, 2024	\$ 32,162,962	\$ 40,505,520	

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, 2024

	Budget	Actual	Variance - Over (Under)
<b>Water Sales:</b>			
Industrial sales	\$ 476,500	\$ 484,202	\$ 7,702
Residential sales	2,665,000	2,796,135	131,135
Commercial sales	333,125	332,283	(842)
Sales to West Shelby Water District	175,250	219,529	44,279
Sales to Noth Shelby Water District	310,000	311,660	1,660
Sales to East US 60 Water District	375,000	462,442	87,442
Private fire protection	230,000	237,700	7,700
Public fire protection	5,500	5,424	(76)
Other water sales	60,000	70,512	10,512
<b>Total Water Sales</b>	<b>4,630,375</b>	<b>4,919,887</b>	<b>289,512</b>
<b>Sewer Service</b>			
Industrial service	505,000	538,319	33,319
Residential service	2,357,500	2,412,685	55,185
Commercial service	500,000	477,115	(22,885)
Sewer pretreatment program	30,000	75,241	45,241
Other sewer service	180,000	250,078	70,078
<b>Total Sewer Service</b>	<b>3,572,500</b>	<b>3,753,438</b>	<b>180,938</b>
<b>Other Revenues</b>			
Water meter turn ons	40,000	30,075	(9,925)
Miscellaneous income	25,000	132,355	107,355
Handling late fee	47,500	45,293	(2,207)
Rental income	25,000	18,866	(6,134)
<b>Total Other Revenues</b>	<b>\$ 137,500</b>	<b>\$ 226,589</b>	<b>\$ 89,089</b>

Shelbyville Municipal Water and Sewer Commission  
Schedule of Operating Expenses - Budget to Actual  
For the Year Ended June 30, 2024

	Budget	Actual	Variance - Over (Under)
Direct Water Expenses:			
Direct Water Purchased	\$ 600,000	\$ 588,921	\$ (11,079)
Operation, supervision and engineering	3,000	2,735	(265)
Source of supply and pumping labor	300,000	336,974	36,974
Laboratory expense	83,500	83,282	(218)
Operating supplies	525,000	462,892	(62,108)
Maintenance - structures	87,500	160,196	72,696
Maintenance - pumping and filtering	57,500	102,762	45,262
Power	200,000	188,114	(11,886)
Maintenance - water mains	95,000	161,618	66,618
Maintenance - services and meters	97,500	94,638	(2,862)
Maintenance - hydrants	17,500	27,682	10,182
Meter readings	85,000	97,852	12,852
Sludge removal	65,000	36,689	(28,311)
Misc. labor	40,000	33,276	(6,724)
Vacation, holiday and sick-pay	98,949	95,340	(3,609)
	<u>98,949</u>	<u>95,340</u>	<u>(3,609)</u>
 Total Direct Water Expenses	 <u>\$ 2,355,449</u>	 <u>\$ 2,472,971</u>	 <u>\$ 117,522</u>

Shelbyville Municipal Water and Sewer Commission  
Schedule of Operating Expenses - Budget to Actual  
For the Year Ended June 30, 2024

	Budget	Actual	Variance - Over (Under)
Direct Sewer Expenses:			
Operation, supervision and engineering	\$ 3,000	\$ 960	\$ (2,040)
Sewer plant labor	112,500	177,919	65,419
Laboratory expense	45,000	61,746	16,746
Operating supplies	297,500	339,487	41,987
Maintenance - structures	41,500	39,731	(1,769)
Maintenance - disposal plant equipment	92,000	74,277	(17,723)
Power	225,000	228,306	3,306
Power - SD pump station	110,000	100,996	(9,004)
Maintenance - sewer mains	39,500	31,905	(7,595)
Maintenance - sewer manholes	9,100	4,338	(4,762)
Maintenance - pump stations	22,500	3,466	(19,034)
Maintenance - SD pump stations	2,500	771	(1,729)
Maintenance - flow monitoring	8,600	-	(8,600)
Pretreatment expense	40,000	16,972	(23,028)
Chronic tox testing	13,500	3,284	(10,216)
Sludge removal	255,000	330,756	75,756
Vacation, holiday and sick-pay	45,000	46,547	1,547
Labor - comm pump station	28,250	60,339	32,089
Pretreatment outside lab expense	18,500	15,451	(3,049)
Materials comm pump station	60,000	56,308	(3,692)
Maintenance - SD mains	2,500	-	(2,500)
Materials flow monitoring	750	-	(750)
Materials SD mains	1,250	-	(1,250)
	<u>1,473,450</u>	<u>1,593,559</u>	<u>120,109</u>
Total Direct Sewer Expenses	<u>\$ 1,473,450</u>	<u>\$ 1,593,559</u>	<u>\$ 120,109</u>

Shelbyville Municipal Water and Sewer Commission  
Schedule of Operating Expenses - Budget to Actual  
For the Year Ended June 30, 2024

	Budget	Actual	Variance - Over (Under)
Administrative Expenses:			
Office salaries	\$ 155,000	\$ 154,933	\$ (67)
Office supplies and expenses	100,000	110,710	10,710
Uncollectible revenue	500	3,373	2,873
Management salaries	170,000	167,142	(2,858)
Management training	8,000	5,218	(2,782)
Legal and accounting	85,000	78,709	(6,291)
Commission member fees	50,000	42,441	(7,559)
Insurance	175,000	178,799	3,799
Employee insurance	250,000	197,368	(52,632)
Employee retirement	400,000	105,857	(294,143)
Miscellaneous expenses	125,000	160,937	35,937
Maintenance - general properties	2,500	4,122	1,622
Maintenance - safety equipment	27,500	25,186	(2,314)
Safety training	7,500	10,726	3,226
Truck and equipment expenses	175,000	171,550	(3,450)
Distribution shop supplies	30,000	31,638	1,638
Cash short over	500	(355)	(855)
Office utilities	9,000	6,842	(2,158)
Payroll taxes	120,000	146,825	26,825
Vacation, holiday and sick-pay	35,000	33,928	(1,072)
Office janitorial	1,350	12,105	10,755
Office cleaning supplies	750	366	(384)
Office maintenance	17,500	17,811	311
Total Administrative Expenses	<u>\$ 1,945,100</u>	<u>\$ 1,666,231</u>	<u>\$ (278,869)</u>

Shelbyville Municipal Water and Sewer Commission  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2024

<i>Award Information</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Contract Number</i>	<i>Federal Expenditures (\$)</i>
<b>U.S. Department of the Treasury</b>			
Coronavirus State and Local Fiscal Recovery Funds (See Note 3)	21.027	T7UNGA6TW469	\$ 1,473,176
Total Federal Expenditures			\$ 1,473,176

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Shelbyville Municipal Water and Sewer Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Note 2 - Indirect Cost Rates

The Commission did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Note 3 - Pass-through Grantor - Kentucky Infrastructure Authority



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, 2024, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 1, 2025.

**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.

**BaldwinCPAs, PLLC**  
Baldwin CPAs, PLLC  
Richmond, Kentucky  
March 1, 2025

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners  
Shelbyville Municipal Water and Sewer Commission

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the Shelbyville Municipal Water and Sewer Commission's ("the Commission") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2024. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Commission's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Commission's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Commission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC

Richmond, Kentucky

March 1, 2025

Shelbyville Municipal Water and Sewer Commission  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2024

**A. Summary of Auditors Results**

Financial Statements:

1. The auditors' report expresses an unmodified opinion on whether Shelbyville Municipal Water and Sewer Commission's financial statements were prepared in accordance with GAAP.
2. No deficiencies in internal controls over financial reporting were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Shelbyville Municipal Water and Sewer Commission, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

Federal Awards:

4. No deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal awards programs for Shelbyville Municipal Water and Sewer Commission expresses an unmodified opinion on all major federal programs.
6. No audit findings were required to be reported in accordance with 2 CFR 2005.16(a).
7. The programs tested as major programs included: 

Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)	Assistance Listing Number  21.027
--	---
8. The threshold for distinguishing Types A and B Programs was \$750,000.
9. Shelbyville Municipal Water and Sewer Commission did not qualify to be a low-risk auditee.

**B. Financial Statement Findings**

No matters were reported.

**C. Major Federal Award Findings and Questioned Costs**

No matters were reported.

**D. Schedule of Prior Year Audit Findings**

No matters were reported

Shelbyville Municipal Water and Sewer Commission  
Board of Commissioners  
June 30, 2024

	<u>Term Expires</u>
Mayor H. Troy Ethington	December 31, 2025
Wayne Stratton	June 30, 2026
Gil Tucker	June 30, 2025
Danny Eades	December 31, 2026
Al Andrews	June 30, 2027
Valoise Owens	June 30, 2026
Frank Page	December 31, 2026