



City of Shelbyville, Kentucky
Independent Auditors' Report
And Financial Statements
For the Year Ended
June 30, 2021

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INDEPENDENT AUDITORS' REPORT

Mayor and Members of the City Council
City of Shelbyville, Kentucky
Shelbyville, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelbyville, Kentucky (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Shelbyville'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 governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelbyville, Kentucky, as of June 30, 2021, the respective changes in financial position and where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City'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 City'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 budgetary comparison information and pension and OPEB schedules on page 38-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information – proprietary fund and special revenue funds, and combining statements – special revenue funds on pages 43-46 (collectively “*other supplementary information*”) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *other supplementary information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The City Officials and Council Members 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 February 22, 2022 on our consideration of the City'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness if the City'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 City's internal control over financial reporting and compliance.

Baldwin CPA's, PLLC

Baldwin CPA's, PLLC
Richmond, Kentucky
February 22, 2022

City of Shelbyville, Kentucky
Statement of Net Position
June 30, 2021

	Primary Government			Water & Sewer Component Unit
	Governmental	Business-Type	Total	
	Activities	Activities		
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,690,899	\$ 176,715	\$ 9,867,614	\$ 3,324,193
Cash - insurance reserves	263,152	500	263,652	-
Certificates of deposit	2,003,537	-	2,003,537	-
Trade accounts receivable	-	-	-	670,112
Taxes and licenses receivable	1,612,915	-	1,612,915	-
Other receivables	94,229	-	94,229	91,389
Materials inventory	-	-	-	216,190
Prepaid expenses	-	-	-	29,265
Total current assets	13,664,732	177,215	13,841,947	4,331,149
Restricted cash	-	-	-	24,064,851
Non-current assets:				
Capital assets:				
Land	1,404,232	2,956,223	4,360,455	244,706
Water rights	-	-	-	165,652
Construction work in progress	5,319,613	-	5,319,613	3,607,692
Fixed assets	20,471,355	2,011,525	22,482,880	72,500,855
Accumulated depreciation	(10,189,166)	(1,054,741)	(11,243,907)	(34,432,244)
Total non-current assets	17,006,034	3,913,007	20,919,041	42,086,661
Total Assets	30,670,766	4,090,222	34,760,988	70,482,661
Deferred Outflows of Resources				
Deferred outflows of resources - pension and OPEB	6,289,818	416,568	6,706,386	1,678,098
Deferred outflows of resources - loss on debt refunding	-	-	-	256,815
Total deferred outflows of resources	6,289,818	416,568	6,706,386	1,934,913
Total Assets and Deferred Outflows	\$ 36,960,584	\$ 4,506,790	\$ 41,467,374	\$ 72,417,574
Liabilities				
Current liabilities:				
Accounts payable	\$ 462,678	\$ 34,666	\$ 497,344	\$ 183,885
Claims payable	128,218	678	128,896	14,195
Accrued payroll	147,938	31,547	179,485	-
Accrued expenses and withholdings	98,024	33,847	131,871	64,891
Deferred revenue	1,125,000	-	1,125,000	-
Customer deposits	-	-	-	298,202
Accrued interest - customer deposits	-	-	-	155,000
Lease obligation	-	47,379	47,379	-
Accounts payable - construction	-	-	-	225,453
Notes payable	40,036	-	40,036	-
Bonds outstanding	135,000	-	135,000	1,225,327
Total current liabilities	2,136,894	148,117	2,285,011	2,166,953
Non-current liabilities:				
Compensated absences	922,771	118,550	1,041,321	-
Lease obligation	-	143,897	143,897	-
Notes payable	1,008,507	-	1,008,507	-
Bonds outstanding	4,615,720	-	4,615,720	34,377,521
Net OPEB Liability	5,325,740	308,128	5,633,868	1,327,093
Net pension liability	17,528,814	696,820	18,225,634	4,216,513
Total non-current liabilities	29,401,552	1,267,395	30,668,947	39,921,127
Total Liabilities	31,538,446	1,415,512	32,953,958	42,088,080
Deferred Inflows of Resources	1,806,715	79,710	1,886,425	335,524
Total Liabilities and Deferred Inflows	33,345,161	1,495,222	34,840,383	42,423,604
Net Position				
Investment in capital assets	11,206,771	3,721,731	14,928,502	22,715,763
Restricted for:				
Streets	365,790	-	365,790	-
Tourism	707,094	-	707,094	-
Community development/economic assistance	25,028	-	25,028	-
Retirement/benefits	169,304	-	169,304	-
Construction	466,044	-	466,044	-
Debt service	-	-	-	702,367
Capital projects	-	-	-	4,528,571
Surplus	-	-	-	187,614
Other	45,920	-	45,920	-
Unrestricted	(9,370,528)	(710,163)	(10,080,691)	1,859,655
Total Net Position	3,615,423	3,011,568	6,626,991	29,993,970
Total Liabilities, Deferred Inflows and Net Position	\$ 36,960,584	\$ 4,506,790	\$ 41,467,374	\$ 72,417,574

City of Shelbyville, Kentucky
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Primary Government - Net Revenue (Expense)			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 4,300,670	\$ 108,300	\$ 443,401	\$ -	\$ (3,748,969)	\$ -	\$ (3,748,969)	\$ -
Police	4,131,338	-	158,336	-	(3,973,002)	-	(3,973,002)	-
Fire	2,548,410	-	136,263	-	(2,412,147)	-	(2,412,147)	-
Streets	1,625,438	-	-	278,513	(1,346,925)	-	(1,346,925)	-
Community development	384,764	-	-	-	(384,764)	-	(384,764)	-
Parks and recreation	365,345	-	-	-	(365,345)	-	(365,345)	-
Interest on long-term debt	207,654	-	-	-	(207,654)	-	(207,654)	-
Total Governmental Activities	13,563,619	108,300	738,000	278,513	(12,438,806)	-	(12,438,806)	-
Business-Type Activities:								
Golf course	1,242,808	1,172,077	-	-	-	(70,731)	(70,731)	-
Total Business-Type Activities	1,242,808	1,172,077	-	-	-	(70,731)	(70,731)	-
Total Primary Government	\$ 14,806,427	\$ 1,280,377	\$ 738,000	-	(12,438,806)	(70,731)	(12,509,537)	-
Component units:								
Water and sewer commission	8,059,973	7,958,732	-	154,196	-	-	-	52,955
Total Component Units	\$ 8,059,973	\$ 7,958,732	\$ -	\$ 154,196	-	-	-	52,955
General Revenues								
Taxes:								
Ad valorem taxes					3,261,280	-	3,261,280	-
Insurance taxes					1,656,769	-	1,656,769	-
Franchise taxes					265,243	-	265,243	-
In lieu of franchise tax					499,275	-	499,275	-
Housing Authority, in lieu of taxes					35,840	-	35,840	-
Restaurant tax					652,044	-	652,044	-
Penalties and interest					25,692	-	25,692	-
Licenses and Permits:								
Net profit license					487,794	-	487,794	-
Occupational license					4,297,754	-	4,297,754	-
Intergovernmental					22,324	-	22,324	-
Interest					42,252	7	42,259	14,426
Reimbursement from state for relocation projects					-	-	-	-
Other					112,500	-	112,500	-
Total General Revenues					11,358,767	7	11,358,774	14,426
Transfers					(254,655)	407,106	152,451	(152,451)
Change in net position					(1,334,694)	336,382	(998,312)	(85,070)
Net Position - June 30, 2020, as originally reported					4,911,925	2,675,186	7,587,111	30,079,040
Prior period adjustment (see Note 20)					38,192	-	38,192	-
Net Position - June 30, 2020, as restated					4,950,117	2,675,186	7,625,303	30,079,040
Net Position, June 30, 2021	\$	\$	\$	\$	3,615,423	3,011,568	6,626,991	\$ 29,993,970

City of Shelbyville, Kentucky
Balance Sheet - Governmental Funds
June 30, 2021

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 6,448,750	\$ 1,965,907	\$ 1,276,242	\$ 9,690,899
Cash - insurance reserves	263,152	-	-	263,152
Certificates of deposit	2,003,537	-	-	2,003,537
Receivables				
Taxes and Licenses	1,612,915	-	-	1,612,915
Intergovernmental	-	-	-	-
Other	43,843	-	50,386	94,229
Total Assets	\$ 10,372,197	\$ 1,965,907	\$ 1,326,628	\$ 13,664,732
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 74,323	\$ 374,863	\$ 13,492	\$ 462,678
Claims payable	128,218	-	-	128,218
Accrued payroll	147,938	-	-	147,938
Accrued expenses and withholdings	98,024	-	-	98,024
Deferred revenue	-	1,125,000	-	1,125,000
Total liabilities	448,503	1,499,863	13,492	1,961,858
Fund balances				
Restricted for:				
Police	-	-	15,165	15,165
Streets	-	-	365,790	365,790
Community development/economic assistance	-	-	25,028	25,028
Construction	-	466,044	-	466,044
Assigned for:				
Tourism	-	-	707,094	707,094
Retirement/benefits	-	-	169,304	169,304
Other	-	-	30,755	30,755
Unassigned	9,923,694	-	-	9,923,694
Total fund balances	9,923,694	466,044	1,313,136	11,702,874
Total Liabilities and Fund Balances	\$ 10,372,197	\$ 1,965,907	\$ 1,326,628	\$ 13,664,732

City of Shelbyville, Kentucky
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Position
 June 30, 2021

Fund balances - total governmental funds		\$ 11,702,874
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated depreciation of \$10,189,166</p>		17,006,034
<p>Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:</p>		
Deferred outflows related to pension and OPEB	6,289,818	
Deferred inflows related to pension and OPEB	<u>(1,806,715)</u>	4,483,103
<p>Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.</p>		
Bonds payable	(4,750,720)	
Notes payable	(1,048,543)	
Net pension liability - CERS	(17,528,814)	
Net OPEB liability - CERS	(5,325,740)	
Compensated absences	<u>(922,771)</u>	<u>(29,576,588)</u>
Net Position of governmental activities		<u><u>\$ 3,615,423</u></u>

City of Shelbyville, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2021

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 5,718,407	\$ -	\$ 652,460	\$ 6,370,867
Licenses and permits	4,785,548	-	-	4,785,548
Intergovernmental revenue	294,599	373,401	370,837	1,038,837
Charges for services	108,300	-	-	108,300
Interest income	34,371	7,145	321	41,837
Fines and forfeitures	25,692	-	-	25,692
Miscellaneous income	52,667	-	14,454	67,121
Total Revenue	11,019,584	380,546	1,038,072	12,438,202
Expenditures				
General government	4,511,683	-	42,491	4,554,174
Police	2,215,599	-	45,351	2,260,950
Fire	1,452,509	-	-	1,452,509
Streets	619,723	-	169,514	789,237
Parks and recreation	350,888	-	-	350,888
Community Development	106,874	-	252,689	359,563
Debt service	77,540	-	291,041	368,581
Capital outlay	802,554	4,901,182	141,406	5,845,142
Total Expenditures	10,137,370	4,901,182	942,492	15,981,044
Excess of Revenues				
Over (under) expenditures	882,214	(4,520,636)	95,580	(3,542,842)
Other Financing Sources (Uses):				
Other income (expense)	45,378	-	-	45,378
Transfers In	152,451	3,503,192	-0-	3,655,643
Transfers Out	(3,555,030)	(355,268)	-	(3,910,298)
Total Other Financing Sources (Uses)	(3,357,201)	3,147,924	-	(209,277)
Net Change in Fund Balance	(2,474,987)	(1,372,712)	95,580	(3,752,119)
Fund Balances June 30, 2020, as originally reported	12,398,681	1,838,756	1,179,364	15,416,801
Prior Period Adjustment (Note 20)	-	-	38,192	38,192
Fund Balances June 30, 2020, as restated	12,398,681	1,838,756	1,217,556	15,454,993
Fund Balances June 30, 2021	\$ 9,923,694	\$ 466,044	\$ 1,313,136	\$ 11,702,874

City of Shelbyville, Kentucky
 Governmental Funds
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance to the Statement of Activities
 for the year ended June 30, 2021

Net change in fund balances - total government funds \$ (3,752,119)

Amounts reported for governmental activities in the Statement of
 Activities are different because:

Governmental funds report capital outlays as expenditures while governmental
 activities report depreciation expense to allocate those expenditures over the
 life of the assets:

Capital asset purchases capitalized	5,287,584	
Depreciation expense	<u>(1,007,767)</u>	4,279,817

Repayment of debt principal is an expenditure in the Governmental Funds,
 but the repayment reduces long-term liabilities in the Statement of Net
 Position.

Debt principal payments		160,927
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Some expenses reported in the statement of activities do not require the use of
 current financial resources and therefore are not reported as expenditures in the
 governmental funds.

CERS pension plan	(1,772,545)	
CERS OPEB plan	(102,946)	
Compensated absences	<u>(147,828)</u>	<u>(2,023,319)</u>

Change in Net Position of Governmental Activities \$ (1,334,694)

City of Shelbyville, Kentucky
Statement of Net Position - Proprietary Fund - Golf Course
June 30, 2021

Assets

Current assets	
Cash	\$ 176,715
Cash - insurance reserves	500
	177,215
Total Current Assets	
	177,215
Noncurrent Assets	
Capital assets, net of depreciation	3,913,007
	3,913,007
Total Noncurrent Assets	
	3,913,007
Total Assets	
	4,090,222
Deferred Outflows of Resources	
	416,568

Liabilities

Current liabilities	
Account payable	34,666
Claims payable	678
Accrued payroll	31,547
Accrued expenses and withholdings	33,847
Capital lease	47,379
	47,379
Total Current liabilities	
	148,117
Noncurrent Liabilities	
Obligations for compensated absences	118,550
Capital lease	143,897
Net pension liability	696,820
Net OPEB Liability	308,128
	308,128
Total Noncurrent Liabilities	
	1,267,395
Total Liabilities	
	1,415,512
Deferred Inflows of Resources	
	79,710

Net Position

Investment in capital assets	3,721,731
Unrestricted	(710,163)
	(710,163)
Total Net Position	
	\$ 3,011,568

City of Shelbyville, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund - Golf Course
For the Year Ended June 30, 2021

Operating Revenues		
Green fees	\$	436,878
Driving range		52,029
Cart rental		330,712
Sale of concessions		130,975
Season passes		40,298
Cart passes		22,442
Other revenue		158,743
Total Operating Revenues		<u>1,172,077</u>
Operating Expenses		
Salaries		368,234
Payroll taxes		30,403
Retirement expenses		206,497
Group insurance		20,927
Utilities		35,414
Repairs and maintenance		58,506
Office expense		124
Employee uniforms		4,329
Credit card charges		36,189
Dues and travel		1,877
Sales tax		55,361
Fuel and oil		11,451
Fertilizer/chemicals		64,399
Concessions		68,068
Miscellaneous		125,994
Small equipment and parts		4,294
Depreciation		142,133
Total Operating Expenses		<u>1,234,200</u>
Operating loss		<u>(62,123)</u>
Nonoperating Revenues (Expenses)		
Transfers in		407,106
Interest expense		(8,608)
Interest earned		7
Total Nonoperating Revenues (Expenses)		<u>398,505</u>
Change in Net Position		336,382
Net Position, June 30, 2020		<u>2,675,186</u>
Net Position, June 30, 2021	\$	<u><u>3,011,568</u></u>

City of Shelbyville, Kentucky
Statement of Cash Flows
Proprietary Fund - Golf Course
For the Year Ended June 30, 2021

Cash flows from operating activities	
Receipts from customers	\$ 1,172,077
Payments to suppliers	(446,229)
Payments for employees	(513,938)
Payments of taxes	<u>(55,361)</u>
Net cash provided by operating activities	<u>156,549</u>
Cash flows from noncapital financing activities	
Interest received	7
Interfund activity	<u>51,838</u>
Net cash provided by noncapital financing activities	51,845
Cash flows from capital and related financing activities	
Acquisition of property and equipment	(26,650)
Interest paid on long-term debt	(8,608)
Principal payments on lease obligations	<u>(51,458)</u>
Net cash used in capital and related financing activities	<u>(86,716)</u>
Net increase in cash	121,678
Cash, beginning of year	<u>55,537</u>
Cash, end of year	<u><u>\$ 177,215</u></u>
Cash is reported as:	
Cash	176,715
Cash - insurance reserves	500
Total cash, end of year	<u><u>\$ 177,215</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (62,123)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	142,133
Change in assets and liabilities:	
Accounts payable	(14,795)
Accrued Payroll	11,107
Claims payable	138
Accrued expenses and withholdings	2,297
Compensated absences	(41,292)
Net OPEB liability	106,347
Net pension liability	<u>12,737</u>
Net cash provided by operating activities	<u><u>\$ 156,549</u></u>

City of Shelbyville, Kentucky
Notes to Financial Statements
June 30, 2021

Note 1 - Summary of Significant Accounting Policies

The City of Shelbyville, Kentucky (The "City") operates under a Mayor-Council form of government. The City's major operations include fire and police protection, parks and recreation, streets, community development, and general administrative services.

The citizens of the City of Shelbyville elect a mayor-at-large and six (6) city council members.

The basic financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitute GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity

The accounts of the City are organized into funds each of which is considered a separate accounting entity. The major fund categories and account groups are:

Governmental Fund Types

Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

General Fund:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund:

The Capital Projects Fund is used by the City to track the financial resources used to acquire and construct major capital assets.

Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Fund Types

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings.

1. Since Fiscal year 1992, the City of Shelbyville, Kentucky owns and operates a municipal golf course. All employees are employed by the City. The City runs the day-to-day operations of the golf course; therefore, the activity has been included herein. The golf course derives its revenue primarily from green fee charges and cart rental fees.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Government-wide Financial Statements

Government-wide financial statements use the economic resources measurement focus just like proprietary funds.

Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resource's measurement focus and accrual basis of accounting. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense.

Discretely Presented Component Unit

The financial statements of the City of Shelbyville, Kentucky include the funds, agencies, boards, and entities for which the City is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined based on the government's ability to significantly influence operations, select the governing authority, and participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the city is financially accountable or the organization's exclusion would cause the city's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units provide their services either exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as primary government. All component units are discretely presented.

The Shelbyville Municipal Water and Sewer System (the "System") operates a combined water and sewer system, which serves Shelbyville and the surrounding area. The original Commission established in 1955 was dissolved, re-established, 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 shall serve as chairperson. Three other members are to be 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. Since the City exercises oversight authority over the Water and Sewer Commission, and the Mayor plus the mayor's appointees are a majority of the Commissioners, the System qualifies to be reported as a discretely presented component unit of the City.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Copies of the Water and Sewer System's separate audited financial statements are available at their office. The Shelbyville Municipal Water and Sewer Commission is a component unit of the City of Shelbyville, Kentucky. It derives its revenues primarily from water and sewer receipts. The component units' column in the Statement of Net Position and the Statement of Activities is presented separately to emphasize this organizations' distinction from the City primary government. The component unit of the City issues separately audited financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government and it is discretely presented component unit. These statements report financial information for the City as a whole. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services that report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions that finance annual operating activities including restrictive investment income; and (3) capital grants and contributions that fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Basis of Accounting

Modified Accrual Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues available if they are collected within 60 days of the end of the fiscal year. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due. Major revenue sources susceptible to accrual include sales and use taxes, property taxes, franchise fees, insurance license fees and intergovernmental revenue.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Accrual Basis of Accounting

The accrual basis of accounting is used in the government-wide statements, the component unit, and in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred. No provision has been provided for doubtful accounts because it is management's opinion that all amounts will be collected.

Budget Policy and Practice

The City and Water and Sewer Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Mayor and Office Administrator are responsible for preparing the proposed operating budgets prior to each fiscal year commencing on July 1. The proposed operating budget is submitted to the City Council for approval. The budget is legally enacted through passage of an ordinance.
2. The Chairman submits an annual budget to the Commission at the May monthly meeting. The budget provides for any request by the Commission for surplus funds deposited in the name of the City. The annual budget is to 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, Kentucky are to 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.
3. Budgeted amounts are as originally adopted, or as amended by the City Council or by the Shelbyville Municipal Water and Sewer Commission. The budget for the City of Shelbyville, Kentucky was amended by vote of the City Council.

Budget Basis of Accounting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City and have been revised for amendments authorized during the year.

For FY 2021, the City's general funds was over budget for the Parks Department expenditures and transfer to other funds; as a whole, the general fund had an unfavorable budget variance of approximately 2.6 million when considering both revenues and expenses.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash Equivalents and Certificates of Deposit

For purposes of the statement of cash flows, the City of Shelbyville, Kentucky considers liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Insurance reserves are also considered cash equivalents.

The City has certificates of deposits and are reported at cost. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services. The certificates of deposit mature in less than one year.

Materials Inventory

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

Trade Accounts Receivable

Trade accounts receivable of the System are reported at the amount management expects to collect from outstanding balances. Management considers all accounts receivable as collectible at year-end, accordingly, no provision has been provided for doubtful accounts.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not capitalized. All reported capital assets and improvements are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate element, deferred outflows of resources, represents a consumption of resources of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

The City has four items that qualify for reporting in this category. These include the City's pension and OPEB contributions made subsequent to the measurement date, differences between expected and actual experience, net difference between projected and actual investment earnings on pension plan investments and changes in assumptions.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Refer to the Pension Liability, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension in Note 14, Retirement Plan and the Post-Employment Benefits Other than Pensions (OPEB) in Note 15.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resource. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2020.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Transfers

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 shall receive no more than 7% of the annual gross water and sewer revenues of the System, and any amounts transferred to the City shall represent surplus funds of the System.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue

The City defers revenue recognition in connection with resources that have been received but not yet earned. At the end of fiscal year 2021, revenue paid in advance of \$1,125,000 has been deferred as these amounts have not yet been earned related to advanced rental payments pursuant to an agreement with the Ohio Valley Educational Cooperative.

Note 2 – Deposits

Effective January 1, 1995, the General Assembly enacted KRS 66.480 which limits investments of public funds generally to obligations of the U.S. and certain of its agency and instrumentality, certificates of deposits or other interest-bearing accounts of FDIC insured banks or savings and loan institutions

The City maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. Custodial credit risk is the risk that in the event of a depository institution failure, the City's deposits may not be returned. The City does have a deposit policy for custodial credit risk and follows the requirements of KRS 41.240(4). The City of Shelbyville, Kentucky maintains numerous accounts at various depository banks. The City has pledged securities for those accounts with balances exceeding \$250,000. On June 30, 2021, FDIC insurance or a properly executed collateral security agreement covered all deposits. On June 30, 2021, \$5,478,568 of the City's bank balance of \$10,317,452 was exposed to custodial credit risk as described below:

Uninsured and collateral held by pledging bank	\$ 5,478,568
Uninsured and uncollateralized	-
Insured by FDIC	4,838,884
Total	<u>\$ 10,317,452</u>

COMPONENT UNIT

The Commission maintains numerous operating and restricted cash accounts at various depository institutions.

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. As of June 30, 2021, all the Commission's \$27,389,044 bank balance was 100% collateralized by pledged treasury certificates by the financial institution.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 3 – Property Tax Calendar

Property taxes for fiscal year 2021 were levied in September 2020 on the assessed valuation of property, located in the City as of the preceding January 1, the lien date. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes, exclusive of vehicle taxes and local deposit franchise taxes, are as follows:

Description	Date	Per K.R.S. 134.020
Due date for payment of taxes		Upon receipt
2% discount period		By November 30
Face value amount payment dates		December 1 to December 31
Delinquent date, 2% penalty		January 1
10% delinquent date		February 1

Note 4 - Municipal Road Aid

The City receives municipal aid from the Kentucky Department of Transportation to enable the City to meet their responsibilities for local streets and roads. The funds are restricted for construction and maintenance of roads only. As of June 30, 2021, the City had a carryover of \$388,748 from prior years and an excess of expenses over revenues of \$22,958 for the current period.

Note 5 - Compensated Absences

The City allows vacation leave according to the following: one year – 40 hours; two through nine years – 80 hours; during and after ten years – 120 hours; during and after twenty years – 160 hours. For Fire Department employees the City allows vacation leave according to the following: one year – 48 hours; two through nine years – 96 hours; during and after ten years – 144 hours; during and after twenty years – 192 hours. Vacation leave shall be accrued at the rate of 1/12th of the annual rate per month of employment. Sick pay may be accrued to a maximum of 1,008 hours, but employees who voluntarily terminate employment or who are dismissed or laid off shall not be paid sick leave credit. Employees who work a holiday shall be compensated for actual hours worked at the regular rate of pay and shall receive another working day off with pay.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 5 - Compensated Absences (continued)

Accumulated unpaid vacation, sick leave, and holiday at June 30, 2021, are as follows:

<u>Vacation Pay</u>	
Administration	\$ 24,753
Fireman	27,827
Police	77,871
Public Works	23,963
Golf Course	13,993
Total	<u>168,407</u>
<u>Sick Pay</u>	
Administration	98,533
Fireman	116,500
Police	360,260
Public Works	101,399
Golf Course	104,557
Total	<u>781,249</u>
<u>Holiday Pay</u>	
Administration	6,022
Fireman	6,506
Police	61,027
Public Works	18,110
Golf Course	-
Total	<u>91,665</u>
<u>Total</u>	
Administration	129,308
Fireman	150,833
Police	499,158
Public Works	143,472
Golf Course	118,550
Total	<u>\$ 1,041,321</u>

Note 6 - Fixed Assets

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with other capital assets. According to the reporting standards, since revenues are less than \$10 million, the City of Shelbyville, Kentucky is only required to report infrastructure acquired after July 1, 2003. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 6 - Fixed Assets (continued)

The City's governmental activities capital assets are as follows:

Primary Government

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 1,404,232	\$ -	\$ -	\$ 1,404,232
CIP	1,930,913	4,487,994	(1,099,294)	5,319,613
Total Non-depreciable Assets	3,335,145	4,487,994	(1,099,294)	6,723,845
Depreciable Assets:				
Buildings and Improvements	7,939,281	-	-	7,939,281
Vehicles	3,126,329	1,402,326	(16,297)	4,512,358
Equipment	1,991,894	103,205	-	2,095,099
Furniture and Fixtures	299,244	-	-	299,244
Infrastructure	5,232,020	393,353	-	5,625,373
Total Depreciable Assets	18,588,768	1,898,884	(16,297)	20,471,355
Total Capital Assets	21,923,913	6,386,878	(1,115,591)	27,195,200
Accumulated Depreciation:				
Buildings and Improvements	(2,887,626)	(211,085)	-	(3,098,711)
Vehicles	(2,654,932)	(198,206)	16,297	(2,836,841)
Equipment	(1,550,568)	(131,877)	-	(1,682,445)
Furniture and Fixtures	(220,763)	(7,751)	-	(228,514)
Infrastructure	(1,883,807)	(458,848)	-	(2,342,655)
Total Accumulated Depreciation	(9,197,696)	(1,007,767)	16,297	(10,189,166)
Governmental Activities Capital Assets, Net	\$12,726,217	\$ 5,379,111	\$(1,099,294)	\$ 17,006,034

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 310,831
Police	209,791
Fire	87,803
Streets	359,684
Community Development	25,201
Parks and Recreation	14,457
Total Depreciation Expense	\$ 1,007,767

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 6 - Fixed Assets (Continued)

A summary of changes in proprietary fund type (golf course) fixed assets follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Business-type Activities:				
Non-depreciable Assets:				
Land	\$ 2,956,223	\$ -	\$ -	\$ 2,956,223
Total Non-depreciable Assets	<u>2,956,223</u>	<u>-</u>	<u>-</u>	<u>2,956,223</u>
Depreciable Assets:				
Buildings and Improvements	435,846	-	-	435,846
Equipment	851,294	26,650	-	877,944
Infrastructure	342,467	355,268	-	697,735
Total Depreciable Assets	<u>1,629,607</u>	<u>381,918</u>	<u>-</u>	<u>2,011,525</u>
Total Capital Assets	<u>4,585,830</u>	<u>381,918</u>	<u>-</u>	<u>4,967,748</u>
Accumulated Depreciation:				
Buildings and Improvements	(335,192)	(11,640)	-	(346,832)
Equipment	(539,503)	(74,516)	-	(614,019)
Infrastructure	(37,913)	(55,977)	-	(93,890)
Total Accumulated Depreciation	<u>(912,608)</u>	<u>(142,133)</u>	<u>-</u>	<u>(1,054,741)</u>
Business-type Activities Capital Assets, Net	<u>\$ 3,673,222</u>	<u>\$ 239,785</u>	<u>\$ -</u>	<u>\$ 3,913,007</u>

COMPONENT UNIT

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

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

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 7 – Notes and Bonds Payable

Government Activities

In February 2020 the City entered into a new loan agreement with Citizens Union Bank. This loan was to purchase a new fire truck. The total loan amount is \$1,074,472 with an interest rate of 3.59%. The length of the loan is 20 years with monthly required payments beginning in November 2020.

Year Ending	Principal	Interest	Amount
2022	\$ 40,036	\$ 37,504	\$ 77,540
2023	41,517	36,022	77,539
2024	42,960	34,580	77,540
2025	44,644	32,896	77,540
2026	46,296	31,243	77,539
2027-2031	258,405	129,295	387,700
2032-2036	309,891	77,508	387,399
2037-2040	264,794	18,403	283,197
Total	<u>\$ 1,048,543</u>	<u>\$ 397,451</u>	<u>\$ 1,445,994</u>

In April 2020 the City entered into a new general obligation bond series 2020A. This bond was to finance the construction of the conference center. The total amount of the bond was \$4,865,000 with a 3% interest rate and term of 25 years with payments beginning October 2020.

Future maturities of bond obligations of the governmental activities as of June 30, 2021:

Year Ending	Principal	Interest	Amount
2022	\$ 135,000	\$ 155,538	\$ 290,538
2023	140,000	151,488	291,488
2024	145,000	147,288	292,288
2025	150,000	142,938	292,938
2026	155,000	138,438	293,438
2027-2031	825,000	620,938	1,445,938
2032-2036	970,000	487,088	1,457,088
2037-2041	1,145,000	316,594	1,461,594
2042-2045	1,065,000	98,056	1,163,056
Total	<u>\$ 4,730,000</u>	<u>\$ 2,258,366</u>	<u>\$ 6,988,366</u>

Add: unamortized bond premium	\$ 20,720
Less current portion	<u>(135,000)</u>
Total long-term portion	<u>\$ 4,615,720</u>

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 7 – Notes and Bonds Payable (Continued)

COMPONENT UNIT

Future maturities of bond obligations of the Commission as of June 30, 2021:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2022	\$ 1,225,328	\$ 894,937	\$ 2,120,265
2023	1,225,712	872,672	2,098,384
2024	1,258,668	840,616	2,099,284
2025	1,291,127	806,720	2,097,847
2026	1,327,751	772,389	2,100,140
2027-2031	7,228,791	3,309,277	10,538,068
2032-2036	7,854,229	2,277,857	10,132,086
2037-2041	6,006,242	1,338,250	7,344,492
2042-2046	3,860,000	776,931	4,636,931
2047-2051	4,325,000	312,906	4,637,906
Total	<u>\$ 35,602,848</u>	<u>\$ 12,202,555</u>	<u>\$ 47,805,403</u>

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

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

Note 8 – Deferred Revenue

In June of 2019 the City entered into an agreement with the Ohio Valley Educational Cooperative (OVEC). OVEC agreed to contribute to the City \$1,500,000 in four equal installments of \$375,000 each for the building of a conference center. The installments are scheduled to be paid at various times based on agreed upon completion stages of the construction project. The City is to use these funds solely for expenses attributable to design, construction, and equipping the center. If for whatever reason, within fifteen years after a certificate of occupancy is issued, the parties agree to sell or cease operation of the center, or if it is damaged beyond use and the City decides not to repair or rebuild the center the City shall pay to OVEC the following amounts: In year 1 an amount of \$1,500,000, and subtracting \$100,000 each year thereafter until the final year any amount is to be paid to OVEC is year 15, and the amount to be paid in that final year is \$100,000. At June 30, 2021, the first 3 payments of \$375,000 were recorded as deferred revenue totaling \$1,125,000.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 9 - Lease Obligations

In June 2020, the City (Weissinger Hills Golf Course) entered into a lease agreement with a bank for the purchase of new golf carts. The lease agreement is for a 65-month period.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021, were as follows:

Year ending June 30,	
2022	\$ 47,379
2023	49,614
2024	51,956
2025	42,327
Present value of minimum lease payments	\$ 191,276

Note 10 - Risk Management

The City of Shelbyville, Kentucky is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently carries property and general liability insurance and worker's compensation insurance through Kentucky League of Cities Insurance Services. The City reports all of its risk management activities in its General Fund and Golf Course Fund.

Note 11 – Long-Term Liability Summary

At June 30, 2021, long-term liabilities are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
GO Bond 2020A	\$ 4,865,000	\$ -	\$ (135,000)	\$ 4,730,000	\$ 135,000
Unamortized bond premium	20,720		-	20,720	-
Fire truck loan	1,074,470	-	(25,927)	1,048,543	40,036
Compensated Absences	774,943	147,828	-	922,771	-
	6,735,133	147,828	(160,927)	6,722,034	175,036
Business-type Activities:					
Golf Cart Lease - FY19	230,306	-	(39,030)	191,276	47,379
Golf Equipment Lease	6,214	-	(6,214)	-	-
Compensated Absences	159,842	-	(41,292)	118,550	-
	396,362	-	(86,536)	309,826	47,379
	\$ 7,131,495	\$ 147,828	\$ (247,463)	\$ 7,031,860	\$ 222,415

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 12 – Employee Health Benefit Plan and Claims Liability

Effective July 1, 2006, the City 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 City 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 City has purchased excess stop-loss insurance for medical expenses that exceed \$75,000 per covered individual for fiscal year June 30, 2021. The City 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:

	Health Care General	Health Care Golf	Health Care Total
Liability balance, June 30, 2020	\$ 28,324	\$ 540	\$ 28,864
Claims and changes in estimates	823,560	24,768	848,328
Claims payments	(723,666)	(24,630)	(748,296)
Liability balance, June 30, 2021	<u>\$ 128,218</u>	<u>\$ 678</u>	<u>\$ 128,896</u>

Note 13 - Fund Balance and Net Position

In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact.
- Restricted - includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed - includes amounts that can only be used for specific purposes. Committed fund balances are reported pursuant to ordinances passed by the City Council, the City's highest level of decision-making authority.
- Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balances.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. In the Special Revenue Fund, the unassigned classification is only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 13 - Fund Balance and Net Position (Continued)

General Fund

The General Fund has unassigned fund balance of \$9,923,694 as of June 30, 2021.

Other Funds

The Municipal Road Aid Fund has restricted funds of \$365,790 that are set aside for City road repairs. The LGEA fund has restricted funds of \$25,038 that are set aside for community development and economic assistance. The Asset Forfeiture Fund has \$15,165 set aside for police use. The Retirement/Benefit fund has assigned funds of \$169,304 that are set aside for future retirement benefits. The restaurant tax fund has assigned funds of \$707,094 that are set aside for tourism. The Capital Projects Fund has restricted funds \$466,044 that are set aside for construction of the conference center.

Net Position

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

Note 14 - Retirement Plan

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

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

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

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 14 - Retirement Plan (Continued)

Kentucky Revised Statutes provides authority for employee and employer contributions. Employees and the City have contributed all of the required contributions for the fiscal year ending June 30, 2021.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	24.06%
Hazardous	8.0%-9.0%	39.58%

The City's contribution for the fiscal year ended June 30, 2021, amounted to \$1,695,457, of which \$1,502,369 was contributed by the City and \$193,088 by the City's employees. For the fiscal year, ended June 30, 2021, the City's covered payroll for hazardous and non-hazardous positions was \$3,861,767.

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

At June 30, 2021, the City reported a liability of \$18,225,634 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the City's proportion was 0.440 percent for hazardous and 0.065 percent for non-hazardous.

For the year ended June 30, 2021, the City recognized pension expense of \$2,803,559. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 1,130,246	\$ 465,432
Differences between expected and actual results	535,108	-
Changes of assumptions	696,787	-
Net difference between projected and actual earnings on Plan investments	717,351	294,390
City's contributions subsequent to the measurement date	1,161,845	-
Total	<u>\$ 4,241,337</u>	<u>\$ 759,822</u>

The \$1,161,845 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2022	\$ 759,382
2023	726,767
2024	536,157
2025	297,365

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 14 - Retirement Plan (Continued)

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments and for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

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

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

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 14 - Retirement Plan (Continued)

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

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

Discount Rate

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

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 22,511,193
Current discount rate	6.25%	\$ 18,225,634
1% increase	7.25%	\$ 14,713,864

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 14 - Retirement Plan (Continued)

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

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

COMPONENT UNIT

	Discount rate	Commission's proportionate share of net pension liability
1% decrease	5.25%	\$ 5,199,908
Current discount rate	6.25%	\$ 4,216,513
1% increase	7.25%	\$ 3,402,261

Note 15 – Other Post-Employment Benefits (OPEB)

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

Deferred Inflows of Resources	\$ 1,126,603
Deferred Outflows of Resources	\$ 2,465,049
Net OPEB Liability:	\$ 5,633,868

Plan Description

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

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 15 – Other Post-Employment Benefits (OPEB) (Continued)

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2021, was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund from the City were \$340,524 for the year ended June 30, 2021, for both non-hazardous and hazardous combined. Employees that entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

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

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	
Pre--65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trends starting at 5.00% and gradually decreasing to an ultimate Trend rate of 4.05% over a period of 10 years

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Discount Rate

Single discount rates of 5.34% for CERS non-hazardous and 5.30% for CERS Hazardous were used to measure the total OPEB liability as of June 30, 2020. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 15 – Other Post-Employment Benefits (OPEB) (Continued)

included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

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

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

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

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.68%) or one percentage point higher (6.68%) follows:

	<u>Discount Rate</u>	<u>City's proportionate share of net OPEB liability</u>
1% decrease	4.34%	\$ 7,534,242
Current discount rate	5.34%	\$ 5,633,868
1% increase	6.34%	\$ 4,095,648

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 15 – Other Post-Employment Benefits (OPEB) (Continued)

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

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

Healthcare Cost Trend Rate	City's proportionate share of net OPEB liability
1% decrease	\$ 4,119,193
Current healthcare rate	\$ 5,633,868
1% increase	\$ 7,490,432

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the City recognized OPEB expense of \$408,611. At June 30, 2021, the City 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	\$ 345,226	300,825
Implicit subsidy	57,448	-
Differences between expected and actual results	400,569	667,732
Changes of assumptions	935,961	5,404
Net difference between projected and actual earnings on Plan investments	385,321	152,642
City contributions subsequent to the measurement date	340,524	-
Total	\$ 2,465,049	\$ 1,126,603

The \$340,524 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2022	\$ 169,531
2023	\$ 129,941
2024	\$ 263,329
2025	\$ 273,692
2026	\$ 103,981

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 15 – Other Post-Employment Benefits (OPEB) (Continued)

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

COMPONENT UNIT

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

Note 16 – Interfund Transfers

Interfund transfers during the year ended June 30, 2021, were as follows:

	Transfer In	Transfer Out
General Fund	\$ 152,451	\$ 3,555,030
Capital Grant Fund	3,503,192	355,268
Special Grants Fund	-	-
Golf Fund	407,106	-
Municipal Road Fund	-	-
Water & Sewer Component Unit	-	152,451
Restaurant Tax Fund	-	-
LGEA Fund	-	-
	\$ 4,062,749	\$ 4,062,749

Transfers are used to (a) move funds from one fund to another fund according to an agreement and to (b) use unrestricted revenues collected in the general fund to finance other funds operations

Note 17 – Subsequent Event

The City has evaluated subsequent events through February 22, 2022 the date which the financial statements were available to be issued.

Note 18 – Related Party Transactions

The City maintains cash deposits at a local financial institution in which one of its council members is affiliated.

City of Shelbyville, Kentucky
Notes to Financial Statements (Continued)
June 30, 2021

Note 19 – Recently Issued Accounting Standards Update

GASB Statement No. 87—In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after June 15, 2021, or the 2021-22 fiscal year. The City has not determined the effect of this pronouncement.

Note 20 – Correction of Error

During 2021, the City detected and corrected an accounting error that impacted the beginning balances as of June 30, 2020. Other Governmental Funds cash balance was understated by \$38,192 related to police forfeiture funds that were not recorded in the prior year. As a result of the correction of the error detected in the current year, the City restated beginning net position for governmental activities as noted below:

	Governmental Activities
Beginning of year, as previously reported Net Position	1,179,364
Cash	38,192
Total	<u>38,192</u>
Beginning of year, as restated Net Position	<u><u>1,217,556</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Shelbyville, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2021

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	\$ 5,117,000	\$ 5,117,000	\$ 5,718,407	\$ 601,407
Licenses and permits	4,150,000	4,150,000	4,785,548	635,548
Intergovernmental revenue	289,500	289,500	294,599	5,099
Charges for services	120,300	120,300	108,300	(12,000)
Interest income	40,000	40,000	34,371	(5,629)
Fines and forfeitures	18,500	18,500	25,692	7,192
Miscellaneous income	167,000	167,000	52,667	(114,333)
Total Revenues	9,902,300	9,902,300	11,019,584	1,117,284
Expenditures				
General government	4,714,500	4,714,500	4,511,683	202,817
Police	2,228,000	2,228,000	2,215,599	12,401
Fire	1,537,500	1,537,500	1,452,509	84,991
Streets	649,300	649,300	619,723	29,577
Parks & recreation	345,000	345,000	350,888	(5,888)
Community Development	129,000	129,000	106,874	22,126
Debt service	120,000	120,000	77,540	42,460
Capital outlay	1,453,680	1,453,680	802,554	651,126
Total expenditures	11,176,980	11,176,980	10,137,370	1,039,610
Excess (deficiency) of revenues over expenditures	(1,274,680)	(1,274,680)	882,214	2,156,894
Other financing sources (uses):				
Operating transfers in	1,386,000	1,386,000	152,451	(1,233,549)
Operating transfers out	(15,000)	(15,000)	(3,555,030)	(3,540,030)
Other income	-	-	45,378	45,378
Total other financing sources (uses)	1,371,000	1,371,000	(3,357,201)	(4,728,201)
Excess (deficiency) of revenues over expenditures and transfers	\$ 96,320	\$ 96,320	(2,474,987)	\$ (2,571,307)
Fund balance beginning of year			12,398,681	
Fund balance end of year of year			\$ 9,923,694	

City of Shelbyville, Kentucky
Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System
Last Seven Fiscal Years

	June 30, 2015		June 30, 2016		June 30, 2017		June 30, 2018		June 30, 2019	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
City's proportion of the net pension liability	0.440312%	0.062190%	0.455780%	0.060073%	0.453216%	0.062084%	0.510120%	0.057376%	0.431065%	0.058935%
City's proportionate share of the net pension liability	\$5,292,000	\$2,018,000	\$6,996,710	\$2,582,846	\$7,776,914	\$3,056,797	\$11,412,805	\$3,358,394	\$10,425,121	\$3,589,321
City's covered employee payroll	\$2,205,558	\$1,400,221	\$2,445,532	\$1,481,018	\$2,853,620	\$1,454,501	\$2,426,025	\$1,460,662	\$2,358,214	\$1,509,157
City's proportion of the net position liability as a percentage of its covered-employee payroll	239.94%	144.12%	286.10%	174.40%	272.53%	210.16%	470.43%	229.92%	442.08%	237.84%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	66.80%	57.52%	59.97%	53.95%	55.50%	49.80%	53.50%	49.26%	53.54%
	June 30, 2020		June 30, 2021							
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous						
City's proportion of the net pension liability	0.394089%	0.059832%	0.439997%	0.064663%						
City's proportionate share of the net pension liability	\$10,885,902	\$4,208,011	\$13,266,036	\$4,959,599						
City's covered employee payroll	\$2,797,503	\$1,648,536	\$2,509,111	\$1,352,656						
City's proportion of the net position liability as a percentage of its covered-employee payroll	389.13%	255.26%	528.71%	366.66%						
Plan fiduciary net position as a percentage of the total pension liability	46.63%	50.45%	44.11%	47.51%						

City of Shelbyville, Kentucky
Schedule of the City's Pension Contributions
County Employees' Retirement System
Last Seven Fiscal Years

	June 30, 2015		June 30, 2016		June 30, 2017		June 30, 2018		June 30, 2019	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
Contractually required contribution	\$ 457,212	\$ 178,948	\$ 495,465	\$ 184,091	\$ 619,521	\$ 202,903	\$ 538,578	\$ 211,504	\$ 585,875	\$ 244,702
Contributions in relation to the contractually required contribution	<u>\$ (457,212)</u>	<u>\$ (178,948)</u>	<u>\$ (495,465)</u>	<u>\$ (184,091)</u>	<u>\$ (619,521)</u>	<u>\$ (202,903)</u>	<u>\$ (538,578)</u>	<u>\$ (211,504)</u>	<u>\$ (585,875)</u>	<u>\$ (244,702)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$2,205,558	\$1,400,221	\$ 2,445,532	\$ 1,481,018	\$2,853,620	\$1,454,501	\$2,426,025	\$1,460,662	\$2,358,214	\$1,509,157
Contributions as a percentage of covered employee	20.73%	12.78%	20.26%	12.43%	21.71%	13.95%	22.20%	14.48%	24.84%	16.21%
	June 30, 2020		June 30, 2021							
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous						
Contractually required contribution	\$ 856,036	\$ 318,167	\$ 767,788	\$ 261,063						
Contributions in relation to the contractually required contribution	<u>\$ (856,036)</u>	<u>\$ (318,167)</u>	<u>\$ (767,788)</u>	<u>\$ (261,063)</u>						
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
City's covered-employee payroll	\$2,797,503	\$1,648,536	\$2,509,111	\$1,352,656						
Contributions as a percentage of covered employee	30.60%	19.30%	30.60%	19.30%						

City of Shelbyville, Kentucky
Schedule of the City's OPEB Contributions
County Employees' Retirement System
Last Four Fiscal Years

	June 30, 2018		June 30, 2019		June 30, 2020		June 30, 2021	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
Contractually required contribution	\$ 226,833	\$ 68,651	\$ 246,684	\$ 79,364	\$ 266,322	\$ 78,470	\$ 238,867	\$ 64,386
Contributions in relation to the contractually required contribution	(226,833)	(68,651)	(246,684)	(79,364)	(266,322)	(78,470)	(238,867)	(64,386)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$2,426,025	\$1,460,662	\$2,358,214	\$1,509,157	\$2,797,503	\$1,648,536	\$2,509,111	\$1,352,656
Contributions as a percentage of covered-employee payroll	9.35%	4.70%	10.46%	5.26%	9.52%	4.76%	9.52%	4.76%

City of Shelbyville, Kentucky
Schedule of Changes in the City's OPEB Liability
County Employees' Retirement System
Last Four Fiscal Years
(\$ in thousands)

Change in the Net OPEB Liability	June 30, 2018		June 30, 2019		June 30, 2020		June 30, 2021	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
Total OPEB liability								
Service Cost	\$ 105	\$ 49	\$ 146	\$ 72	\$ 129	\$ 71	\$ 209	\$ 85
Interest	577	138	509	143	460	144	511	153
Benefit Changes	-0-	-0-	2	3	-	-	-	-
Difference between actual and expected experience	(13)	(4)	(433)	(142)	(407)	(242)	168	327
Assumption Changes	1,995	299	(11)	(3)	460	161	207	39
Benefit Payments	(325)	(80)	(307)	(92)	(300)	(97)	(370)	(122)
Net Change on Total OPEB Liability	2,339	402	(94)	(19)	342	37	725	482
Total OPEB Liability - Beginning	7,943	2,021	8,689	2,489	7,859	2,506	9,170	2,748
Total OPEB Liability - Ending	<u>\$ 10,282</u>	<u>\$ 2,423</u>	<u>\$ 8,595</u>	<u>\$ 2,470</u>	<u>\$ 8,201</u>	<u>\$ 2,543</u>	<u>\$ 9,895</u>	<u>\$ 3,230</u>
Plan Fiduciary Net Position								
Contributions - Employer	\$ 226	\$ 76	\$ 223	\$ 86	\$ 238	\$ 101	\$ 263	\$ 116
Contributions - Member	9	5	9	6	10	7	12	8
Benefit Payments	(325)	(80)	(307)	(92)	(300)	(97)	(370)	(122)
Net Investment Income	734	152	474	119	289	82	10	6
Administrative Expense	(2)	-0-	(2)	-	(2)	(1)	(2)	(1)
Other	-0-	-0-	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	642	153	397	119	235	92	(87)	7
Plan Fiduciary Net Position - Beginning	5,423	1,117	5,126	1,304	5,049	1,444	5,909	1,661
Plan Fiduciary Net Position - Ending	<u>\$ 6,065</u>	<u>\$ 1,270</u>	<u>\$ 5,523</u>	<u>\$ 1,423</u>	<u>\$ 5,284</u>	<u>\$ 1,536</u>	<u>\$ 5,822</u>	<u>\$ 1,668</u>
Net OPEB Liability - Ending	4,217	1,153	3,072	1,047	2,917	1,007	4,073	1,562
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	59.0%	52.4%	64.3%	57.6%	64.4%	60.4%	58.8%	51.6%
Covered Payroll	\$2,426	\$1,461	2,358	1,509	\$ 2,798	\$ 1,649	\$ 2,509	\$ 1,353
Net OPEB Liability as a Percentage of Covered Payroll	173.8%	78.9%	130.3%	69.4%	104.3%	61.1%	162.3%	115.4%

OTHER SUPPLEMENTARY INFORMATION

City of Shelbyville, Kentucky
 Budgetary Comparison Schedule
 Proprietary Fund (Golf Course)
 For the Year Ended June 30, 2021

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues	\$ 1,095,840	\$ 1,095,840	\$ 1,172,077	\$ 76,237
Expenditures	1,006,299	1,006,299	1,234,200	(227,901)
Excess (deficiency) of revenues over expenditures	89,541	89,541	(62,123)	(151,664)
Non-Operating Income (Expense)				
Interest income	-	-	7	7
Interest expense	-	-	(8,608)	(8,608)
Transfers (to) from other funds	-	-	407,106	407,106
	-	-	398,505	398,505
Change in net position	<u>\$ 89,541</u>	<u>\$ 89,541</u>	<u>336,382</u>	<u>\$ 246,841</u>
Net Position, beginning of year, as restated			<u>2,675,186</u>	
Net Position, end of year			<u>\$ 3,011,568</u>	

City of Shelbyville, Kentucky
Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2021

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Intergovernmental revenue	\$ 365,000	\$ 365,000	\$ 370,837	\$ 5,837
Restaurant tax	630,000	630,000	652,460	22,460
Interest income	225	225	321	96
Miscellaneous income	-	-	14,454	14,454
Total Revenue	995,225	\$ 995,225	\$ 1,038,072	\$ 42,847
Expenditures:				
Street department	267,000	267,000	169,514	97,486
General government	74,000	74,000	42,491	31,509
Fire department	-	-	-	-
Community development	707,659	707,659	252,689	454,970
Debt service	291,041	291,041	291,041	-
Capital outlay	466,500	466,500	141,406	325,094
Total expenditures	1,806,200	1,806,200	942,492	863,708
Excess (deficiency) of revenues over expenditures	(810,975)	(810,975)	95,580	906,555
Transfers (to) from other funds	-	-	-	-
Excess (deficiency) of revenues over expenditures and transfers	<u>\$ (810,975)</u>	<u>\$ (810,975)</u>	95,580	<u>\$ 906,555</u>
Fund balance, beginning of year, as originally stated			<u>1,179,364</u>	
Prior period adjustment (see note 20)			<u>38,192</u>	
Fund balance, beginning of year, as restated			<u>1,217,556</u>	
Fund balance, end of year			<u>\$ 1,313,136</u>	

City of Shelbyville, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

Special Revenue Funds

	Special Grants Fund	Municipal Road Aid Fund	LGEA Coal Severance Fund	Law E Block Grant	Retirement/Benefits Fund	Asset Forfeiture Fund	Property Maintenance	Safer Grant	Restaurant Tax Fund	Total
Assets										
Cash	\$ 18,630	\$ 328,896	\$ 25,028	\$ 816	\$ 169,304	\$ 15,165	\$ 11,309	\$ -	\$ 707,094	\$ 1,276,242
Receivables	-	50,386	-	-	-	-	-	-	-	50,386
Total Assets	\$ 18,630	\$ 379,282	\$ 25,028	\$ 816	\$ 169,304	15,165	\$ 11,309	\$ -	\$ 707,094	\$ 1,326,628
Liabilities and Fund Balance										
Accounts Payable	\$ -	\$ 13,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,492
Total Liabilities	-	13,492	-	-	-	-	-	-	-	13,492
Fund Balance, restricted	-	365,790	25,028	-	-	15,165	-	-	-	405,983
Fund Balance, assigned	18,630	-	-	816	169,304	-	11,309	-	707,094	907,153
Total Fund Balance	18,630	365,790	25,028	816	169,304	15,165	11,309	-	707,094	1,313,136
Total Liabilities and Fund Balance	\$ 18,630	\$ 379,282	\$ 25,028	\$ 816	\$ 169,304	\$ 15,165	\$ 11,309	\$ -	\$ 707,094	\$ 1,326,628

City of Shelbyville, Kentucky
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2021

Special Revenue Funds

	Special Grants Fund	Municipal Road Aid Fund	LGEA Coal Severance Fund	Law E Block Grant Fund	Retirement Benefits Fund	Asset Forfeiture Fund	Property Maintenance	Safer Grant	Restaurant Tax Fund	Total
Revenues										
Intergovernmental revenue	\$ 70,000	\$ 278,513	\$ -	\$ -	\$ -	\$ 22,324	\$ -	\$ -	\$ -	\$ 370,837
Restaurant tax	-	-	-	-	-	-	-	-	652,460	652,460
Interest income	-	249	30	-	42	-	-	-	-	321
Miscellaneous income	-	-	-	-	-	-	14,454	-	-	14,454
Total revenues	70,000	278,762	30	-	42	22,324	14,454	-	652,460	1,038,072
Expenditures										
Street department	-	169,514	-	-	-	-	-	-	-	169,514
Police department	-	-	-	-	-	45,351	-	-	-	45,351
General government	-	-	-	-	29,626	-	6,753	-	6,112	42,491
Community development	53,655	-	-	-	-	-	-	-	199,034	252,689
Debt service	-	-	-	-	-	-	-	-	291,041	291,041
Capital outlay	-	132,206	9,200	-	-	-	-	-	-	141,406
Total expenditures	53,655	301,720	9,200	-	29,626	45,351	6,753	-	496,187	942,492
Excess (deficiency) of revenues over expenditures	16,345	(22,958)	(9,170)	-	(29,584)	(23,027)	7,701	-	156,273	95,580
Non-operating Revenues (Expenses)										
Transfers In	-	-	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-	-	-
Total Non-operating Revenue (Expense)	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures and transfers	16,345	(22,958)	(9,170)	-	(29,584)	(23,027)	7,701	-	156,273	95,580
Fund balance, beginning of year - original reported	2,285	388,748	34,198	816	198,888	-	3,608	-	550,821	1,179,364
Prior period adjustment (see note 20)	-	-	-	-	-	38,192	-	-	-	38,192
Fund balance, beginning of year, as restated	2,285	388,748	34,198	816	198,888	38,192	3,608	-	550,821	1,217,556
Fund balance, end of year	\$ 18,630	\$ 365,790	\$ 25,028	\$ 816	\$ 169,304	\$ 15,165	\$ 11,309	\$ -	\$ 707,094	\$ 1,313,136

**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**

Independent Auditors' Report

To the Mayor and City Council
City of Shelbyville, Kentucky

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 governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelbyville, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Shelbyville, Kentucky's basic financial statements and have issued our report thereon dated February 22, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Shelbyville, Kentucky's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Shelbyville, Kentucky'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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses to be material weaknesses (2021-01 and 2021-02).

Report on Compliance and Other Matters

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

City of Shelbyville, Kentucky's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Shelbyville, Kentucky's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Shelbyville, Kentucky's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 City of Shelbyville, Kentucky'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 City of Shelbyville, Kentucky's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
Richmond, Kentucky
February 22, 2022

Finding: 2021-01

- Condition:** The City does not prepare financial statements in accordance with Generally Accepted Accounting Principles.
- Criteria:** As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.
- Cause:** The City's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. Numerous adjustments were necessary to prepare the financial statements in conformity with generally accepted accounting principles.
- Effect:** The City was unable to prepare their financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. Without proper internal resources and procedures to ensure that the financial statements are prepared in accordance with general accepted accounting principles, the risk of material misstatement is increased.
- Management engaged the auditor to prepare draft financials statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to issuance
- Recommendation:** The City's internal financial statements that are prepared by Management are not required to be prepared in accordance generally accepted accounting principles (GAAP). However, the City's financial statements that are submitted for external audit are required to be prepared accordance with GAAP. Currently the City has limited resources to review their financial statements and related note disclosures in relation to GAAP to provide reasonable assurance that reliable financial reporting will be achieved. Management must be intentional in its plan to prepare financial statements that are in accordance with GAAP. The following includes suggestions to strengthen internal controls over financial reporting:
- Knowledgeable personnel monitor changes in authoritative guidance and make the appropriate changes to the entity's accounting policies and procedures on a timely basis. In addition, obtain annual training and updates on governmental financial reporting issues.
 - An independent review of significant judgments and estimates included in the financial records is performed at the end of every accounting period by knowledgeable personnel. An independent review of the financial statements and all related disclosures is performed by management and/or other suitably qualified personnel for completeness, consistency, and compliance with GAAP and the entity's accounting and disclosure policies. This independent review can include discussion with external auditor prior to start of annual financial statement audit.
 - Up-to-date disclosure checklists are used to ensure that all relevant financial information is disclosed in the appropriate accounting period in accordance with GAAP and the entity's accounting and disclosure policies.
 -
 - For each financial statement disclosure, a supporting analysis is prepared and documented in accordance with relevant GAAP and the entity's accounting and disclosure policies.

- All financial statements and related disclosures are approved by management prior to the release of the reports to third parties.

Response: Management understands and agrees with the auditor's recommendations and the need to implement the recommendations to improve financial reporting, mitigate risk, and enhance internal controls. Management is currently in the process of reviewing its procedures to strengthen internal controls and accounting policies.

Finding 2021-02

Condition: The City does not reconcile the occupational tax reports to the general ledger and does not review their large taxpayers to ensure receipt of payment.

Criteria: As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Cause: The City's limited internal resources prevent the reconciliation of the occupational tax receipt reports to the general ledger on a regular basis and prevent an analysis of the City's largest taxpayers in order to detect errors and non-payments.

Effect: The City's occupational tax reports were not be reconciled to the general ledger for Fiscal Year 2021. Our audit procedures detected a large taxpayer that did not properly submit their applicable tax payment for fiscal year 2021.

Recommendation: The City should work to reconcile the occupational tax reports to the general ledger to ensure all revenue is recorded in the general ledger. The City should also review on a regular basis the top ten to fifteen largest taxpayers to ensure their returns are filed properly and that all tax monies were received.

Response: Management understands and agrees with the auditor's recommendations and the need to implement the recommendations to improve financial reporting, mitigate risk, and enhance internal controls. Management is currently in the process of reviewing its procedures to strengthen internal controls and accounting policies.

City of Shelbyville, Kentucky
Officers and Council Members
June 30, 2021

		<u>Term Expires</u>
Mayor	David Eaton	December 31, 2022
City Council	Frank Page	December 31, 2022
	Pam Heady Carter	December 31, 2022
	Shane Suttor	December 31, 2022
	Troy Ethington	December 31, 2022
	Tom Hardesty	December 31, 2022
	Mike Zoeller	December 31, 2022
City Administrator	Fred Rogers	
City Clerk	Carla Wainscot	