

Shelbyville Municipal Water and Sewer Commission

Shelbyville, Kentucky

Financial Statements

And Independent Auditors' Report

For the Year Ended

June 30, 2017

Shelbyville Municipal Water and Sewer Commission
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Shelbyville Municipal Water and Sewer Commission (the "Commission") a component unity of the City of Shelbyville, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension schedules on page 23-24 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. The 2015 and 2016 information presented on pages 23 and 24 was reported on by other auditors whose report dated July 17, 2017, indicated they applied certain limited procedures to the information and, accordingly did not express an opinion or provide any assurance on the information because the limited procedures did not provide them with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that governmental 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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 25 through 30 is 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information presented on page 30 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on that information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2018, on our consideration of the Shelbyville Municipal Water and Sewer Commissions internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shelbyville Municipal Water and Sewer Commission's internal control over financial reporting and compliance.

Baldwin CPAs, PLLC

Richmond, Kentucky
April 9, 2018

Shelbyville Municipal Water and Sewer Commission
Statement of Net Position
June 30, 2017

Assets

Current assets:

Operating cash and cash equivalents	\$ 792,847
Trade accounts receivable	587,164
Inter-governmental receivable	43,501
Materials inventory	127,537
Prepaid expenses	<u>160,855</u>

Total current assets 1,711,904

Restricted cash and cash equivalents

Debt service fund	673,010
Debt service reserve fund	753,330
Depreciation fund	1,143,661
Surplus fund	208,469
System development charge	<u>1,849,547</u>

Total restricted cash 4,628,017

Non-current assets:

Capital assets:

Land	181,864
Water rights	165,652
Construction work in progress	<u>6,592,962</u>

Total non-depreciable assets 6,940,478

Water plant in service	25,055,125
Sewer plant in service	31,998,194
Administrative and general	<u>1,912,128</u>
Total depreciable assets	58,965,447
Less accumulated depreciation	<u>(28,263,638)</u>
Total depreciable assets, net	30,701,809

Total noncurrent assets 37,642,287

Total assets 43,982,208

Deferred outflows of resources 511,572

Total assets and deferred outflows \$ 44,493,780

Shelbyville Municipal Water and Sewer Commission
Statement of Net Position
June 30, 2017

Liabilities

Current liabilities:	
Accounts payable	\$ 179,117
Accrued expenses	36,581
Customer deposits	288,955
Unpaid claims	15,290
Accrued interest - customer deposits	119,269
Payable from restricted assets:	
Lease obligation	1,192,083
Accounts payable - construction	<u>315,467</u>
Total current liabilities	2,146,762
Non-current liabilities:	
Lease obligation	11,667,083
Net pension liability	<u>2,230,629</u>
Total non-current liabilities	13,897,712
Total liabilities	<u>16,044,474</u>
Deferred inflows of resources	<u>29,684</u>
Total liabilities and deferred inflows	<u>16,074,158</u>
Net position	
Invested in capital assets, net of related debt	17,842,643
Restricted for:	
Debt service	1,426,340
Capital projects	2,993,208
Surplus	208,469
Unrestricted	<u>5,948,962</u>
Total net position	<u>28,419,622</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 44,493,780</u></u>

Shelbyville Municipal Water and Sewer Commission
Statement of Revenues, Expenditures and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues	
Water sales	\$ 3,219,613
Sewer sales	3,117,953
Other revenues	133,284
Total operating revenues	6,470,850
Operating expenses	
Direct water expenses	1,251,749
Direct sewer expenses	966,882
Administrative expenses	1,478,725
Depreciation - water plant	650,782
Depreciation - sewer plant	802,304
Depreciation - office building	42,428
Total operating expenditures	5,192,870
Operating income	1,277,980
Non-operating revenues (expenses):	
Interest income	28,782
Interest expense	(513,382)
Capital contributions	117,325
Grants	69,551
Tap on fees	357,920
Debt administration fees	(74,593)
Total non-operating revenues (expenses):	(14,397)
Income before transfers	1,263,583
Transfers out- City of Shelbyville	(149,787)
Net change in net position	1,113,796
Net position, June 30, 2016	27,305,826
Net position, June 30, 2017	\$ 28,419,622

Shelbyville Municipal Water and Sewer Commission
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from customers	\$ 6,568,325
Cash payments to suppliers for goods and services	(2,485,461)
Cash payments to employees	<u>(1,147,596)</u>
Net cash provided by operating activities	2,935,268
Cash flows from noncapital financing activities	
Transfer to City of Shelbyville	<u>(149,787)</u>
Net cash used by noncapital financing activities	(149,787)
Cash flows from capital and related financing activities	
Grants	69,551
Capital contributions	117,325
Tap on fees	357,920
Purchase of capital assets	(6,404,822)
Principal payments on lease obligation	(1,132,083)
Interest payments on lease obligation	(513,382)
Debt administration fees	<u>(74,593)</u>
Net cash used by capital and related financing activities	(7,580,084)
Cash flows from investing activities	
Interest received	<u>28,782</u>
Net cash provided by investing activities	28,782
Net decrease in cash	(4,765,821)
Cash, beginning of year	<u>10,186,685</u>
Cash, end of year	<u><u>\$ 5,420,864</u></u>
Shown in the financial statements as:	
Operating cash and cash equivalents	\$ 792,847
Restricted cash	<u>4,628,017</u>
	<u><u>\$ 5,420,864</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,277,980
Adjustments:	
Depreciation	1,495,514
Change in assets and liabilities:	
Accounts receivable	(22,096)
Inventory	(14,091)
Prepaid expenses	(7,735)
Inter-governmental receivable	114,289
Deferred outflows	(117,160)
Accounts payable	(55,985)
Customer deposits	5,282
Accrued expenses, interest, and unpaid claims	(5,530)
Net pension liability	235,116
Deferred inflows	<u>29,684</u>
Net cash provided by operating activities	<u><u>\$ 2,935,268</u></u>

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

Business Activity

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

Financial Statement Presentation

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

Basis of Accounting and Measurement Focus

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

The Commission is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows or resources, liabilities, and deferred inflows or resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows

Use of Estimates

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

Cash Equivalents

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

Trade Accounts Receivable

Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. Trade accounts receivable are for services to customers. Allowances for uncollectible accounts receivable in totaled \$20,000 and are based upon historical trends and the periodic aging of accounts receivable.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Materials Inventory

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

Investments

Investments consist of money market mutual funds reported at fair value.

Capital Assets

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

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

<u>Class</u>	
Buildings and improvements	20-50 years
Machinery and equipment	5-10 years
Water and sewer systems	50 years
Infrastructure	20-50 years

Customer Deposits

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

Revenue

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

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

Operating Revenue and Expenses

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

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

Debt Service Coverage

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

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

Equity Classifications

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

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

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

Accumulated Vacation and Sick leave

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

Retirement System

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

Note 2 – Custodial Credit Risk - Deposits

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

The Commission’s deposit and investment policies conform to state statutes. The Commission deposits its funds in banks insured by the Federal Deposit Insurance Corporation (FDIC). Collateral is required for all deposits in excess of FDIC insurance at 100% of the carrying amount at the bank. Collateral consists of pledged treasury certificates by the pledging financial institution. All of the bank balances were covered by the \$250,000 federal depository insurance or pledged treasury certificates.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 3 – Components of Restricted Assets

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

- a. Debt service fund – This fund will be used for the payment of principal and interest on revenue bonds.
- b. Debt service reserve fund – Designated as an allowance or reserve for payment on principal and interest on revenue bonds for which there would otherwise be a default in payment.
- c. Depreciation fund – This fund shall be available and shall be utilized to balance depreciation, to make unforeseen major repairs and replacements to the Water and Sewer System (“System”) and to pay the costs of constructing additions, extensions, betterments and improvements to the System.
- d. System Development Charge – This fund shall be maintained by the Commission for improvements and ongoing construction for improvements to the System.
- e. Surplus fund – This fund shall be maintained by the Commission and used to the extent necessary for payment of obligations, payments of principal and interest for costs of improving or extending the System, or for any other lawful municipal purpose.

Note 4 – Utility Plant and Capital Assets

The water system assets and sewer system assets are recorded at cost.

Following is a schedule of the utility plant:

Water Plant and Land	
Source of supply land	\$ 36,238
Power and pumping land	21,500
Source of supply structures	5,542,873
Pumping structures	417,840
Standpipes	3,409,071
Purification system	3,172,729
Dam and line	300,409
Miscellaneous structures	44,524
Pumping equipment	2,433,776
Distribution mains	6,206,163
Services and meters	3,168,556
Hydrants	359,184
Total water plant	<u>\$ 25,112,863</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 4 – Utility Plant and Capital Assets (continued)

Sewer Plant and Land	
Land	\$ 124,126
Structures	9,090,033
Distribution lines	14,024,230
Manholes	1,074,238
Disposal plant equipment	7,798,002
Office furniture and fixtures	11,691
Total sewer plant	<u>\$ 32,122,320</u>
Administrative and general	
Land and building	\$ 683,493
Office furniture and fixtures	337,578
Transportation equipment	668,551
Shop equipment	222,506
Total administrative and general	<u>\$ 1,912,128</u>
Construction in progress	
Water plant	\$ 2,173,155
Sewer plant	4,419,807
Total construction in progress	<u>\$ 6,592,962</u>
Water rights	<u>\$ 165,652</u>

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital assets not being depreciated				
Land	\$ 181,864	\$ -	\$ -	\$ 181,864
Water rights	165,652	-	-	165,652
Construction in process	2,742,869	5,825,373	1,975,280	6,592,962
Total capital assets not being depreciated	<u>3,090,385</u>	<u>5,825,373</u>	<u>1,975,280</u>	<u>6,940,478</u>
Depreciable assets:				
Water plant in service	24,620,204	451,614	(16,693)	25,055,125
Sewer plant in service	29,975,711	2,022,483	-	31,998,194
Administrative and general	1,831,497	80,631	-	1,912,128
Total depreciable assets	<u>56,427,412</u>	<u>2,554,728</u>	<u>(16,693)</u>	<u>58,965,447</u>
Total capital assets	<u>59,517,797</u>	<u>8,380,101</u>	<u>1,958,587</u>	<u>65,905,925</u>
Accumulated depreciation:				
Water plant in service	(12,449,866)	(650,782)	16,693	(13,083,955)
Sewer plant in service	(13,071,521)	(802,304)	-	(13,873,825)
Administrative and general	(1,263,430)	(42,428)	-	(1,305,858)
Total accumulated depreciation	<u>(26,784,817)</u>	<u>(1,495,514)</u>	<u>16,693</u>	<u>(28,263,638)</u>
Governmental activities capital assets, net	<u>\$ 32,732,980</u>	<u>\$ 6,884,587</u>	<u>\$ 1,975,280</u>	<u>\$ 37,642,287</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 5 - Lease Obligations

On July 14, 2000, the City of Shelbyville entered into a fixed rate lease purchase agreement with the Kentucky League of Cities Funding Trust as lessor. Under the agreement, revenue bonds of \$715,000 were sold at par. Proceeds were used for water and sewer line extension and expansion.

The bonds sold under the lease agreement will be retired over a period of twenty (20) years with variable interest rates. The assumed rate of interest for base rental payments is 4.18%. After notice from the lessor, the Commission will either receive a credit against base rental payable on July 15 of each fiscal year in an amount equal to the excess, if any, of the aggregate of the interest components of base rentals paid by the Commission during the preceding fiscal year (at the assumed interest rate) over the Commission's proportionate share of all interest paid on variable rate bonds or the Commission will immediately pay as additional rentals, an amount equal to the excess, if any, of the Commission's proportionate share of all interest paid or to be paid on variable rate bonds over the aggregate of the interest components of base rentals then required to be paid by the Commission (at the assumed interest rate). Prior to May 1 of each fiscal year during the lease term, the lessor will inform the Commission of the amount of additional rentals that are estimated to be payable during the next ensuing fiscal year. The annual base period rentals, including interest and fiduciary fees, under the agreement range from \$40,729 to \$68,591.

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

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

On June 30, 2008, the City of Shelbyville entered into a fixed rate lease purchase agreement with the Kentucky Municipal Finance Corporation for the refunding of prior 1998 lease. Under the agreement, revenue bonds of \$7,230,000 were sold at par. The bonds sold under the new 2008 lease agreement will be retired over a period of ten (10) years with interest rates from 2.75% to 4.00%. The annual base period rentals including interest, under the agreement range from \$655,241 to \$998,400. Proceeds from this lease agreement were used to finance the construction of improvements to the City's municipal water and sewer system (the "System") and to refund certain maturities of the City's Water System Revenue Bonds, Series 1991-H, the proceeds of which were used to finance the construction on improvements to the System.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 5 - Lease obligations (continued)

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

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

Future maturities of long-term debt is as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2018	\$ 1,192,083	\$ 457,312	1,649,395
2019	301,985	411,949	713,934
2020	1,037,886	388,282	1,426,168
2021	1,022,518	351,052	1,373,570
2022	1,036,911	314,520	1,351,431
2023-2027	5,685,910	977,932	6,663,842
2028-2032	1,854,375	248,678	2,103,053
2033-2036	727,498	43,874	771,372
Total	<u>\$ 12,859,166</u>	<u>\$ 3,193,599</u>	<u>\$ 16,052,765</u>

A summary of changes in long-term liabilities of the Commission as of June 30, 2017 is as follows:

<u>Lease obligations</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within a year</u>
KLC Series 2000	\$ 240,000	\$ -	\$ 45,000	\$ 195,000	\$ 60,000
KLC Series 2004A	7,750,000	-	-	7,750,000	-
Series 2008 Revenue	1,880,000	-	920,000	960,000	960,000
Series 2015 Revenue	4,121,250	-	167,084	3,954,166	172,083
	<u>\$ 13,991,250</u>	<u>\$ -</u>	<u>\$ 1,132,084</u>	<u>\$ 12,859,166</u>	<u>\$ 1,192,083</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 6 – Retirement Plan

Plan description. Employees of the Commission are provided a defined benefit pension plan through the County Employees Retirement System ("CERS"), a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"). The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically 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.

Kentucky Revised Statutes provides authority for employee and employer contributions. Employees and the Commission have contributed all of the required contributions for the fiscal year ending June 30, 2017.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	18.66%
Hazardous	8.0%-9.0%	31.06%

The Commission's contribution for the fiscal year ended June 30, 2017 amounted to \$217,298, of which \$159,235 was contributed by the Commission and \$58,063 by the Commission's employees.

Membership in CERS consisted of the following at June 30, 2017:

	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	51,673	6,834	58,507
Inactive memberships	75,904	2,309	78,213
Active plan members	<u>83,346</u>	<u>9,139</u>	<u>92,485</u>
	<u>210,923</u>	<u>18,282</u>	<u>229,205</u>
Number of participating employers			<u>1,140</u>

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 6 – Retirement Plan (continued)

For the fiscal year, ended June 30, 2017 the Commission's covered payroll for non-hazardous positions was \$1,141,499

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

At June 30, 2017, the Commission reported a liability of \$2,230,629 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the Commission's proportion was 0.045 percent for non-hazardous.

For the year ended June 30, 2017, the Commission recognized pension expense of \$301,329. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 14,730	\$ 29,684
Differences between expected and actual results	9,738	-
Changes of assumptions	118,167	-
Net difference between projected and actual earnings on Plan investments	209,702	-
Commission's contributions subsequent to the measurement date	159,235	-
Total	\$ 511,572	\$ 29,684

The \$159,235 of deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. 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,	
2018	\$ 97,426
2019	97,426
2020	75,376
2021	52,426

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.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 6 - Retirement Plan (continued)

Actuarial Methods and Assumptions

The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. June 30, 2015 was the actuarial valuation date upon which the TPL was based. An expected TPL was determined as of June 30, 2016 using standard roll forward techniques. The roll forward calculation added the annual normal cost (also called the service cost), subtracted the actual benefit payments and refunds for the plan year and then applied the expected investment rate of return for the year.

Valuation Date	June 30, 2015
Measurement Date	June 20, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again, when the next experience investigation is conducted.

Long Term Rate of Return: The long term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long term rate of return assumption including long term historical data, estimates inherent in current market data, and a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe.

The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 6 – Retirement Plan (continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	
Combined Equity	44	5.40	%
Combined Fixed Income	19	1.50	
Real Return (Diversified Inflation Strategies)	10	3.50	
Real Estate	5	4.50	
Absolute Return (Diversified Hedge Funds)	10	4.25	
Private Equity	10	8.50	
Cash Equivalent	2	-.25	
Total	<u>100</u>		%

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. The periods of projected benefit payments for all current plan members were projected through 2117.

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

The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	Discount rate	Commission's proportionate share of net pension liability
1% decrease	6.5%	\$ 2,780,000
Current discount rate	7.5%	\$ 2,231,000
1% increase	8.5%	\$ 1,760,000

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 6 – Retirement Plan (continued)

Payables to the pension plan: At June 30, 2017, the Commission reported a payable including insurance contributions of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

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

Note 7 – Fair value measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Commission has the ability to access.
- Level 2: Inputs to the valuation methodology included quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 7 – Fair value measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimized the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

- Money market mutual funds: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

The following table sets forth by level, within the hierarchy, the Commission's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Morgan Stanley Government Money Market Mutual Fund	\$ -	\$ 753,330	\$ -	\$ 753,330
	<u>\$ -</u>	<u>\$ 753,330</u>	<u>\$ -</u>	<u>\$ 753,330</u>

The Commission's policy is to recognize transfers between levels as of the actual date of the event or changes in circumstances. There were no transfers between levels during the year ended June 30, 2017.

The Commission holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Note 8 – Transfer

Pursuant to an Interlocal Cooperation Agreement dated January 31, 2000 between the City of Shelbyville, the Shelbyville Municipal Water Commission, and the County of Shelby, the City of Shelbyville shall receive no more than 7% of the annual gross water and sewer revenues of the Commission, and any amounts transferred to the City of Shelbyville shall represent surplus funds of the Commission. The funds transferred for the current year ended June 30, 2017 were \$149,787.

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 9 – Other Postemployment Benefits

Plan Description - Retired employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS. Covered employees hired after September 1, 2008, contribute 1.00% of their salaries to the CERS Insurance Fund. Members become eligible to receive the health insurance benefit depending on the hire date, Tier in which they participate, and type of service. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Funding Policy - Employees working for the Commission and other local governments are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

For the year ended June 30, 2017, KRS established a contribution rate of 4.73% for nonhazardous other postemployment benefits (OPEB). During the year ended June 30, 2017, the Commission contributed \$53,991 for nonhazardous duty OPEB.

For the year ended June 30, 2016, KRS established a contribution rate of 4.64% for nonhazardous OPEB. During the year ended June 30, 2016, the Commission contributed 50,167 for nonhazardous duty OPEB.

For the year ended June 30, 2015, KRS established a contribution rate of 4.92% for nonhazardous OPEB. During the year ended June 30, 2015, the Commission contributed \$53,276 for nonhazardous duty OPEB.

Note 10 – Employee Health Benefit Plan and Claims Liability

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

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

The Commission has purchased excess stop-loss insurance for medical expenses that exceed \$55,000 per covered individual for fiscal year June 30, 2017.

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

Shelbyville Municipal Water and Sewer Commission
Notes to Financial Statements
June 30, 2017

Note 10 – Employee Health Benefit Plan and Claims Liability (Continued)

Changes in the balances of claims liability are summarized below:

	<i>Claims Liability</i>
Liability Balance, June 30, 2016	\$ 5,151
Claims and changes in estimates	183,527
Claims payments	(173,388)
 Liability Balance, June 30, 2017	 \$ 15,290

Note 11 – Budgeting

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

Note 12 – Recently Issued Accounting Standards Update

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for years beginning after June 15, 2017, provides guidance for measuring the present value of the projected benefits to be provided to employees that is attributed to those employees' past periods of service. The Commission has not determined the effect, if any, that the adoption of this statement may have on its financial statements.

Note 13- Subsequent Events

The Commission has evaluated and considered the need to recognize or disclose subsequent events through April 9, 2018 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2017, have not been evaluated by the Commission.

On December 5, 2017, the Commission issued \$6,500,000 of General Obligation Bonds, Series 2017, for a water treatment plant project.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>
Commission's proportion of the net pension liability	0.045460%	0.046410%	0.045350%
Commission's proportionate share of the net pension liability	\$1,475,000	\$1,995,513	\$2,230,629
Commission's covered employee payroll	\$1,042,996	\$1,080,750	\$1,141,499
Commission's proportion of the net position liability as a percentage of its covered-employee payroll	141.42%	184.64%	195.41%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

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

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>
Contractually required contribution	\$ 138,064	\$ 134,229	\$ 159,235
Contributions in relation to the contractually required contribution	<u>\$ (138,064)</u>	<u>\$ (134,229)</u>	<u>\$ (159,235)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$1,042,996	\$1,080,750	\$1,141,499
Contributions as a percentage of covered employee	13.24%	12.42%	13.95%

See accompanying notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION

Shelbyville Municipal Water and Sewer Commission
Schedule of Revenues, Expenses and Changes in Net Position - Budget to Actual
For the Year Ended June 30, 2017

	Budget		Actual	Variance - Over (Under)
	Original	Final		
Operating Revenue				
Water sales	\$ 3,103,515	\$ 3,103,515	\$ 3,219,613	\$ 116,098
Sewer sales	2,667,090	2,667,090	3,117,953	450,863
Other revenues	156,150	156,150	133,284	(22,866)
Total Operating Revenue	5,926,755	5,926,755	6,470,850	544,095
Operating Expenses				
Direct water expenses	1,198,798	1,198,798	1,251,749	52,951
Direct sewer expenses	979,125	979,125	966,882	(12,243)
Administrative expenses	1,336,125	1,336,125	1,478,725	142,600
Depreciation - water plant	725,000	725,000	650,782	(74,218)
Depreciation - sewer plant	805,000	805,000	802,304	(2,696)
Depreciation - office building	42,000	42,000	42,428	428
Total Operating Expenditures	5,086,048	5,086,048	5,192,870	106,822
Operating Income	840,707	840,707	1,277,980	437,273
Non-operating revenues (expenses):				
Interest income	-	-	28,782	28,782
Interest expense	-	-	(513,382)	(513,382)
Issuance costs	-	-	-	-
Capital contributions	-	-	117,325	117,325
Grants	-	-	69,551	69,551
Tap on fees	-	-	357,920	357,920
Debt administration fees	-	-	(74,593)	(74,593)
Total Non-Operating Revenues (Expenses):	-	-	(14,397)	(14,397)
Income Before Transfers	840,707	840,707	1,263,583	422,876
Transfers out- City of Shelbyville			(149,787)	
Net Change in Fund Balance	840,707	840,707	1,113,796	422,876
Net Position, June 30, 2016	27,305,826	27,305,826	27,305,826	
Net Position, June 30, 2017	<u>\$ 28,146,533</u>	<u>\$ 28,146,533</u>	<u>\$ 28,419,622</u>	

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Revenues - Budget to Actual
For the Year Ended June 30, 2017

	Budget		Actual	Variance - Over (Under)
	Original	Final		
Water Sales:				
Industrial sales	\$ 338,000	\$ 338,000	\$ 368,960	\$ 30,960
Residential sales	2,028,533	2,028,533	2,070,614	42,081
Commercial sales	286,100	286,100	282,579	(3,521)
Sales to West Shelby Water District	128,600	128,600	148,700	20,100
Sales to Noth Shelby Water District	171,000	171,000	210,315	39,315
Private fire protection	88,500	88,500	88,448	(52)
Public fire protection	5,418	5,418	5,418	-
Other water sales	46,000	46,000	44,579	(1,421)
Total Water Sales	\$ 3,092,151	\$ 3,092,151	\$ 3,219,613	\$ 127,462
Sewer Service				
Industrial service	\$ 512,900	\$ 512,900	\$ 542,068	\$ 29,168
Residential service	1,720,000	1,720,000	1,814,117	94,117
Commercial service	338,500	338,500	391,732	53,232
Sewer pretreatment program	16,000	16,000	57,875	41,875
Other sewer service	79,600	79,600	312,161	232,561
Total Sewer Service	\$ 2,667,000	\$ 2,667,000	\$ 3,117,953	\$ 450,953
Other Revenues				
Water meter turn ons	\$ 39,000	\$ 39,000	\$ 38,025	\$ (975)
Miscellaneous income	25,000	25,000	23,465	(1,535)
Handling late fee	52,000	52,000	52,329	329
Rental income	18,150	18,150	19,465	1,315
Total Other Revenues	\$ 134,150	\$ 134,150	\$ 133,284	\$ (866)

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2017

	Budget		Actual	Variance - Over (Under)
	Original	Final		
Direct Water Expenses:				
Operation, supervision and engineering	\$ 16,000	\$ 16,000	\$ 13,499	\$ (2,501)
Source of supply and pumping labor	194,040	194,040	198,217	4,177
Laboratory expense	67,950	67,950	84,680	16,730
Operating supplies	248,000	248,000	310,453	62,453
Maintenance - structures	61,000	61,000	55,907	(5,093)
Maintenance - pumping and filtering	69,355	69,355	77,157	7,802
Power	172,000	172,000	176,535	4,535
Maintenance - water mains	67,000	67,000	89,727	22,727
Maintenance - services and meters	72,200	72,200	65,256	(6,944)
Maintenance - hydrants	12,716	12,716	9,964	(2,752)
Meter readings	76,173	76,173	73,404	(2,769)
Sludge removal	12,000	12,000	3,461	(8,539)
Misc. labor	66,364	66,364	35,793	(30,571)
Vacation, holiday and sick-pay	64,000	64,000	57,696	(6,304)
	<u>1,198,798</u>	<u>1,198,798</u>	<u>1,251,749</u>	<u>52,951</u>
Total Direct Water Expenses	<u>\$ 1,198,798</u>	<u>\$ 1,198,798</u>	<u>\$ 1,251,749</u>	<u>\$ 52,951</u>

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2017

	Budget		Actual	Variance - Over (Under)
	Original	Final		
Direct Sewer Expenses:				
Operation, supervision and engineering	\$ 2,400	\$ 2,400	\$ 1,013	\$ (1,387)
Sewer plant labor	116,000	116,000	112,066	(3,934)
Laboratory expense	28,900	28,900	27,086	(1,814)
Operating supplies	160,000	160,000	182,412	22,412
Maintenance - structures	32,756	32,756	20,136	(12,620)
Maintenance - disposal plant equipment	43,417	43,417	58,612	15,195
Power	160,000	160,000	153,289	(6,711)
Power - SD pump station	75,000	75,000	74,194	(806)
Maintenance - sewer mains	26,756	26,756	18,533	(8,223)
Maintenance - sewer manholes	5,061	5,061	4,319	(742)
Maintenance - pump stations	24,510	24,510	10,553	(13,957)
Maintenance - SD pump stations	170,100	170,100	148,021	(22,079)
Maintenance - flow monitoring	6,188	6,188	5,983	(205)
Pretreatment expense	16,600	16,600	17,634	1,034
Chronic tox testing	14,000	14,000	7,176	(6,824)
Sludge removal	21,288	21,288	27,332	6,044
Vacation, holiday and sick-pay	29,457	29,457	48,967	19,510
Labor - comm pump station	16,829	16,829	23,121	6,292
Pretreatment outside lab expense	16,800	16,800	16,778	(22)
Materials comm pump station	10,000	10,000	9,657	(343)
Maintenance - SD mains	3,063	3,063	-	(3,063)
Total Direct Sewer Expenses	\$ 979,125	\$ 979,125	\$ 966,882	\$ (12,243)

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2017

	Budget		Actual	Variance - Over (Under)
	Original	Final		
Administrative Expenses:				
Office salaries	\$ 107,121	\$ 107,121	\$ 107,561	\$ 440
Office supplies and expenses	72,000	72,000	81,457	9,457
Uncollectible revenue	2,400	2,400	20,091	17,691
Management salaries	144,000	144,000	142,791	(1,209)
Management training	6,000	6,000	3,572	(2,428)
Legal and accounting	56,000	56,000	39,853	(16,147)
Commission member fees	33,600	33,600	32,010	(1,590)
Insurance	151,501	151,501	154,316	2,815
Employee insurance	232,000	232,000	173,388	(58,612)
Employee retirement	206,478	206,478	360,820	154,342
Miscellaneous expenses	72,200	72,200	105,220	33,020
Maintenance - general properties	14,000	14,000	5,474	(8,526)
Maintenance - safety equipment	1,000	1,000	12,754	11,754
Safety training	3,600	3,600	1,159	(2,441)
Truck and equipment expenses	88,000	88,000	83,879	(4,121)
Distribution shop supplies	14,000	14,000	26,858	12,858
Office cleaning and maintenance	800	800	-	(800)
Office utilities	8,200	8,200	7,293	(907)
Payroll taxes	91,940	91,940	89,645	(2,295)
Vacation, holiday and sick-pay	18,085	18,085	18,618	533
Office janitorial	6,000	6,000	6,000	-
Office maintenance	7,200	7,200	5,966	(1,234)
Total Administrative Expenses	\$ 1,336,125	\$ 1,336,125	\$ 1,478,725	\$ 142,600

Shelbyville Municipal Water and Sewer Commission
Board of Commissioners
June 30, 2017

	<u>Term Expires</u>
Wayne Stratton	June 30, 2020
Gil Tucker	June 30, 2018
Hubert Pollett	June 30, 2019
Val Owens	June 30, 2020
Al Andrews	June 30, 2018
Jon Swindler	December 31, 2019



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners
Shelbyville Municipal Water and Sewer Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Shelbyville Municipal Water and Sewer Commission (the "Commission"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Commission's basic financial statements and have issued our report thereon dated April 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Compliance and Other Matters

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

Purpose of this Report

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

Baldwin CPAs, PLLC

Richmond, Kentucky
April 9, 2018