Shelbyville Municipal Water and Sewer Commission

Shelbyville, KY

Financial Statements

And Independent Auditors' Report

For The Year Ended

June 30, 2018

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, 2018, 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, 2018, 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 28-29 and the OPEB schedules on pages 30-31 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 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 32 through 36 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 pages 37 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 4, 2019, 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 4, 2019

Shelbyville Municipal Water and Sewer Commission
Statement of Net Position
June 30, 2018

Assets	
Current assets:	
Operating cash and cash equivalents	$ 708,616
Trade accounts receivable	686,758
Inter-governmental receivable	48,181
Materials inventory	128,339
Prepaid expenses	158,403
Total current assets	1,730,297
Restricted cash and cash equivalents	
Debt service fund	754,819
Debt service reserve fund	761,839
Depreciation fund	872,182
Surplus fund	180,073
System development charge	1,624,477
Special bond account	6,478,776
Total restricted cash	10,672,166
Non-current assets:	
Capital assets:	
Land	181,864
Water rights	165,652
Construction work in progress	989,158
Total non-depreciable assets	1,336,674
Water plant in service	27,200,514
Sewer plant in service	36,657,223
Administrative and general	2,131,002
Total depreciable assets	65,988,739
Less accumulated depreciation	(29,681,027)
Total depreciable assets, net	36,307,712
Total noncurrent assets	37,644,386
Total assets	50,046,849
Deferred outflows of resources	1,235,268
Total assets and deferred outflows	$ 51,282,117

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission
Statement of Net Position
June 30, 2018

Liabilities	
Current liabilities:	
Accounts payable	$ 210,268
Accrued expenses	44,242
Customer deposits	292,365
Unpaid claims	6,685
Accrued interest - customer deposits	126,942
Payable from restricted assets:	
Current portion of long-term debt	540,671
Accounts payable - construction	59,417
Total current liabilities	1,280,590
Non-current liabilities:	
Long-term debt	17,509,648
Net OPEB liability	941,463
Net pension liability	2,741,162
Total non-current liabilities	21,192,273
Total liabilities	22,472,863
Deferred inflows of resources	319,434
Total liabilities and deferred inflows	22,792,297
Net position	
Invested in capital assets, net of related debt	18,257,393
Restricted for:	
Debt service	1,516,658
Capital projects	2,496,659
Surplus	180,073
Unrestricted	6,039,037
Total net position	28,489,820
Total liabilities, deferred inflows and net position	$ 51,282,117

Shelbyville Municipal Water and Sewer Commission
Statement of Revenues, Expenditures and Changes in Net Position
For the Year Ended June 30, 2018

Operating revenues	
Water sales	$ 3,625,445
Sewer sales	3,087,911
Other revenues	129,308
Total operating revenues	6,842,664
Operating expenses	
Direct water expenses	1,349,018
Direct sewer expenses	1,134,603
Administrative expenses	1,740,479
Depreciation - water plant	732,886
Depreciation - sewer plant	893,636
Depreciation - office building	33,664
Total operating expenditures	5,884,286
Operating income	958,378
Non-operating revenues (expenses):	
Interest income	118,204
Interest expense	(577,738)
Capital contributions	147,976
Grants	45,842
Tap on fees	257,200
Debt administration fees	(74,126)
Total non-operating revenues (expenses):	(82,642)
Income before transfers	875,736
Transfers out- City of Shelbyville	(150,380)
Net change in net position	725,356
Net position, June 30, 2017	28,419,622
Prior Period Adjustment (Note 14)	(655,158)
Net Position, June 30, 2017 Restated	27,764,464
Net position, June 30, 2018	$ 28,489,820

Shelbyville Municipal Water and Sewer Commission
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	$ 6,741,800
Cash payments to suppliers for goods and services	(3,107,685)
Cash payments to employees	(999,350)
Net cash provided by operating activities	2,634,765
Cash flows from noncapital financing activities	
Transfer to City of Shelbyville	(150,380)
Net cash used by noncapital financing activities	(150,380)
Cash flows from capital and related financing activities	
Grants	45,842
Capital contributions	147,976
Tap on fees	257,200
Purchase of capital assets	(1,632,978)
Proceeds from long-term debt	6,500,000
Principal payments on long-term debt	(1,308,847)
Interest payments on long-term debt	(577,738)
Debt administration fees	(74,126)
Net cash provided by capital and related financing activities	3,357,329
Cash flows from investing activities	
Interest received	118,204
Net cash provided by investing activities	118,204
Net increase in cash	5,959,918
Cash, beginning of year	5,420,864
Cash, end of year	$ 11,380,782
Shown in the financial statements as:	
Operating cash and cash equivalents	$ 708,616
Restricted cash	10,672,166
	$ 11,380,782
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 958,378
Adjustments:	
Depreciation	1,660,186
Change in assets and liabilities:	
Accounts receivable	(99,594)
Inventory	(802)
Prepaid expenses	2,452
Inter-governmental receivable	(4,680)
Deferred outflows	(723,696)
Accounts payable	(224,899)
Customer deposits	3,410
Accrued expenses, interest, and unpaid claims	6,729
Net pension liability	510,533
Net OPEB liability	256,998
Deferred inflows	289,750
Net cash provided by operating activities	$ 2,634,765

See accompanying notes to the financial statements.

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 $30,000 and are based upon historical trends and the periodic aging of accounts receivable.

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. On the Statement of Net Position, the investments are presented as restricted cash and cash equivalents.

Capital Assets

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

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

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

Customer Deposits

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

Revenue

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

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

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.

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, net OPEB liability, deferred outflows of resources, deferred inflows of resources related to pension and OPEB expense, information about the fiduciary net position of CERS and addition to/deduction from CERS's fiduciary net positon 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.

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.

f. Special bond account – This fund shall be maintained to account for the proceeds from 2017 revenue bond.

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	5,542,876
Pumping structures	417,840
Standpipes	5,227,801
Purification system	3,287,927
Dam and line	300,409
Miscellaneous structures	49,633
Pumping equipment	2,446,594
Distribution mains	6,206,163
Services and meters	3,360,332
Hydrants	360,939
Total water plant	$ 27,258,252

Note 4 – Utility Plant and Capital Assets (Continued)

Sewer Plant and Land	
Land	$ 124,126
Structures	11,762,047
Distribution lines	14,024,230
Manholes	1,074,238
Disposal plant equipment	9,785,017
Office furniture and fixtures	11,691
Total sewer plant	$ 36,781,349
Administrative and general	
Land and building	$ 690,922
Office furniture and fixtures	366,691
Transportation equipment	676,513
Shop equipment	396,876
Total administrative and general	$ 2,131,002
Construction in progress	
Water plant	$ 778,340
Sewer plant	210,818
Total construction in progress	$ 989,158
Water rights	$ 165,652

Capital assest activity for the year ended June 30, 2018 is as follows:

Capital assets not being depreciated	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Land	$ 181,864	$ -	$ -	$ 181,864
Water rights	165,652	-	-	165,652
Construction in process	6,592,962	995,779	(6,599,583)	989,158
Total capital assets not being depreciated	6,940,478	995,779	(6,599,583)	1,336,674
Depreciable assets:				
Water plant in service	25,055,125	2,338,425	(193,036)	27,200,514
Sewer plant in service	31,998,194	4,661,896	(2,867)	36,657,223
Administrative and general	1,912,128	265,768	(46,894)	2,131,002
Total depreciable assets	58,965,447	7,266,089	(242,797)	65,988,739
Total capital assets	65,905,925	8,261,868	(6,842,380)	67,325,413
Accumulated depreciation:				
Water plant in service	(13,083,955)	(678,603)	193,036	(13,569,522)
Sewer plant in service	(13,873,825)	(893,636)	2,867	(14,764,594)
Administrative and general	(1,305,858)	(87,947)	46,894	(1,346,911)
Total accumulated depreciation	(28,263,638)	(1,660,186)	242,797	(29,681,027)
Governmental activities capital assets, net	$ 37,642,287	$ 6,601,682	$ (6,599,583)	$ 37,644,386

Note 5 – Long-Term Debt

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.

Note 5 – Long-Term Debt (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.

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

Future maturities of long-term debt is as follows:

Year Ending	Principal	Interest	Amount
2019	$ 540,671	$ 494,850	1,649,395
2020	1,283,897	473,684	713,934
2021	1,277,167	432,279	1,426,168
2022	1,299,944	392,975	1,373,570
2023	1,341,396	351,922	1,693,318
2024-2028	6,475,799	1,583,143	8,058,942
2029-2033	3,501,792	592,852	4,094,644
2034-2037	2,329,653	106,856	2,436,509
Total	$ 18,050,319	$ 4,428,561	$ 21,446,480

A summary of changes in long-term liabilities of the Commission as of June 30, 2018 is as follows:

Lease/Bond obligations	Beginning Balance	Additions	Reductions	Ending Balance	Due within a year
KLC Series 2000	$ 195,000	$ -	$ 60,000	$ 135,000	$ 60,000
KLC Series 2004A	7,750,000	-	-	7,750,000	64,901
Series 2008 Revenue	960,000	-	960,000	-	-
Series 2015 Revenue	3,954,166	-	172,083	3,782,083	177,083
Series 2017 Revenue	-	6,500,000	116,764	6,383,236	238,687
	$ 12,859,166	$ 6,500,000	$ 1,308,847	$ 18,050,319	$ 540,671

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, 2018.

Contribution rates are as follows:

	Employee	Employer
Non-hazardous	5.0%-6.0%	19.18%
Hazardous	8.0%-9.0%	31.55%

The Commission’s contribution for the fiscal year ended June 30, 2018 amounted to $244,532, of which $181,205 was contributed by the Commission and $63,327 by the Commission’s employees.

Membership in CERS consisted of the following at June 30, 2018:

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

Note 6 – Retirement Plan (continued)

For the fiscal year, ended June 30, 2018 the Commission's covered payroll for non-hazardous positions was $1,250,688

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

At June 30, 2018, the Commission reported a liability of $2,741,162 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2017, the Commission's proportion was 0.047 percent for non-hazardous.

For the year ended June 30, 2018, the Commission recognized pension expense as follows:

Required cash contributions to the plan	$	181,205
Commission's proportionate share of plan's pension expense (non-cash)		302,299
Total pension expense	$	483,504

At June 30, 2018, 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	$	52,568	$	17,368
Differences between expected and actual results		3,400		69,582
Changes of assumptions		505,819		-
Net difference between projected and actual earnings on Plan investments		217,097		181,182
Commission's contributions subsequent to the measurement date		181,205		-
Total	$	960,089	$	270,141

The $181,205 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,	
2019	$ 221,214
2020	221,251
2021	101,475
2022	(35,198)

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.

Note 6 - Retirement Plan (continued)

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

Actuarial Methods and Assumptions

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, 2016
Measurement Date	June 20, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years, closed
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.

Note 6 – Retirement Plan (continued)

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

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	6.56%	100.00%

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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	5.25%	$ 3,457,198
Current discount rate	6.25%	$ 2,741,162
1% increase	7.25%	$ 2,142,204

Note 6 – Retirement Plan (continued)

Payables to the pension plan: At June 30, 2018, 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, 2018.

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 – Other Post-Employment Benefits (OPEB)

At June 30, 2018, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Inflows of Resources	$	49,293
Deferred Outflows of Resources	$	275,179
Net OPEB Liability:	$	941,463

Plan Description

Employees of the Commission are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statue 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 obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

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

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The Commission has contractually required contribution rate for the year ended June 30, 2018 was 4.70% (non-hazardous) and 9.35% (hazardous) of covered payroll. Contributions to the Insurance Fund from the Commission were $58,817 for the year ended June 30, 2018 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).

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

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rate Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

Discount Rate

The projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous, and 5.96% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. 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 (See chart below.). These ranges were combined to produce the long-

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

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 assumptions are intended to be long-term assumptions and are 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.

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

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	6.56%	100.00%

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

The net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.83%) or one percentage point higher (6.83%) follows:

	Discount Rate	Commission's proportionate share of net OPEB liability
1% decrease	4.83%	$ 1,197,960
Current discount rate	5.83%	$ 941,463
1% increase	6.83%	$ 728,018

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

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

The net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower(6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

	Healthcare Cost Trend Rate	Commission's proportionate share of net OPEB liability
1% decrease	6.5%	$ 722,151
Current healthcare rate	7.5%	$ 941 ,463
1% increase	8.5%	$ 1,226,557

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Commission recognized OPEB expense of $107,283. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	$ -	$ 2,185
Implicit subsidy	11,506	-
Differences between expected and actual results	-	2,615
Changes of assumptions	204,856	-
Net difference between projected and actual earnings on Plan investments	-	44,493
District contributions subsequent to the measurement date	58,817	-
Total	$ 275,179	$ 49,293

The $58,817 of deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. 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,	
2019	$26,866
2020	$26,766
2021	$26,766
2022	$26,866
2023	$37,869
Thereafter	$10,609

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

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

Note 8 – 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.

Note 8 – 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, 2018.

- 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, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Morgan Stanley Government Money Market Mutual Fund	$ -	$ 761,839	$ -	$ 761,839
	$ -	$ 761,839	$ -	$ 761,839

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, 2018.

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.

The Money Market Mutual Funds are presented as restricted cash and cash equivalents in the Statement of Net Position.

Note 9 – Transfer

Pursuant to an Interlocal Cooperation Agreement dated January 31, 2000 between the City of Shelbyville, the Shelbyville Municipal Water Commission, and the County of Shelby, the City of Shelbyville shall receive no more than 7% of the annual gross water and sewer revenues of the Commission, and any amounts transferred to the City of Shelbyville shall represent surplus funds of the Commission. The funds transferred for the current year ended June 30, 2018 were $150,380.

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, 2018.

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

Changes in the balances of claims liability are summarized below:

	Claims Liability
Liability Balance, June 30, 2017	$ 15,290
Claims and changes in estimates	155,256
Claims payments	(163,861)
Liability Balance, June 30, 2018	$ 6,685

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. 83—In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018–19 fiscal year. The Commission has not determined the effect of this pronouncement.

GASB Statement No. 84—In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019–20 fiscal year. The Commmission has not determined the effect of this pronouncement.

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 December 15, 2019. The Commission has not determined the effect of this pronouncement.

Note 13- Subsequent Events

The Commission has evaluated and considered the need to recognize or disclose subsequent events through April 4, 2019 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, 2018, have not been evaluated by the Commission.

Note 14 – Prior Period Adjustment

The GASB has issued Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions".* The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The Commission has implemented this statement, to its financial statements for the year ending June 30, 2018, effective July 1, 2017. In addition, during the year, the Commission discovered that construction in process was understated at June 30, 2017. The effect of the restatement was to increase net position at the beginning of the year by $29,307.

As a result of the implementation of the new accounting standard and the correction of the error, the Commission restated beginning net position as noted below:

Beginning of year, as previously reported Net Position	$ 28,419,622
Construction in process correction	29,307
Net OPEB liability	(738,456)
Deferred outflows of resources from OPEB	53,991
Total	655,158
Beginning or year, as restated Net Position	$ 27,764,464

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 Four Fiscal Years

	June 30, 2015 Non-Hazardous	June 30, 2016 Non-Hazardous	June 30, 2017 Non-Hazardous	June 30, 2018 Non-Hazardous
Commission's proportion of the net pension liability	0.045460%	0.046410%	0.045350%	0.046831%
Commission's proportionate share of the net pension liability	$1,475,000	$1,995,513	$2,230,629	$2,741,162
Commission's covered employee payroll	$1,042,996	$1,080,750	$1,141,499	$1,250,688
Commission's proportion of the net position liability as a percentage of its covered-employee payroll	141.42%	184.64%	195.41%	219.17%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.50%

See accompanying notes to financial statements.

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

	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
	Non-Hazardous	Non-Hazardous	Non-Hazardous	Non-Hazardous
Contractually required contribution	$ 138,064	$ 134,229	$ 159,235	$ 181,205
Contributions in relation to the contractually required contribution	$ (138,064)	$ (134,229)	$ (159,235)	$ (181,205)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$1,042,996	$1,080,750	$1,141,499	$1,250,688
Contributions as a percentage of covered employee	13.24%	12.42%	13.95%	14.49%

Shelbyville Municipal Water and Sewer Commission
Schedule of the Commission's OPEB Contributions
County Employees' Retirement System
Fiscal Year 2018

	Non-Hazardous June 30, 2018
Contractually required contribution	$ 58,817
Contributions in relation to the contractually required contribution	(58,817)
Contribution deficiency (excess)	$ -
Commission's covered-employee payroll	$1,250,688
Contributions as a percentage of covered-employee payroll	4.70%

Shelbyville Municipal Water and Sewer Commission
Schedule of Changes in the Commission's OPEB Liability
County Employees' Retirement System
Fiscal Year 2018

Change in the Net OPEB Liability		**Non-Hazardous**
Total OPEB liability		
Service Cost	$	40,026
Interest		112,794
Benefit Changes		-
Difference between actual and expected experience		(3,110)
Assumption Changes		243,655
Benefit Payments		(65,620)
Net Change on Total OPEB Liability		327,745
Total OPEB Liability - Beginning		**1,649,871**
Total OPEB Liability - Ending	**$**	**1,977,616**
Plan Fiduciary Net Position		
Contributions - Employer	$	62,438
Contributions - Member		4,289
Benefit Payments		(65,620)
Net Investment Income		124,000
Administrative Expense		(369)
Other		-
Net Change in Plan Fiduciary Net Position		124,737
Plan Fiduciary Net Position - Beginning		**911,415**
Plan Fiduciary Net Position - Ending	**$**	**1,036,153**
Net OPEB Liability - Ending		**941,463**
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		52.4%
Covered Payroll		$1,250,688
Net OPEB Liability as a Percentage of Covered Payroll		75.3%

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, 2018

	Budget			
	Original	Final	Actual	Variance - Over (Under)
Operating Revenue				
Water sales	$ 3,505,379	$ 3,505,379	$ 3,625,445	$ 120,066
Sewer sales	2,872,926	2,872,926	3,087,911	214,985
Other revenues	134,150	134,150	129,308	(4,842)
Total Operating Revenue	6,512,455	6,512,455	6,842,664	330,209
Operating Expenses				
Direct water expenses	1,339,359	1,339,359	1,349,018	9,659
Direct sewer expenses	1,117,120	1,117,120	1,134,603	17,483
Administrative expenses	1,505,180	1,505,180	1,740,479	235,299
Depreciation - water plant	750,000	750,000	732,886	(17,114)
Depreciation - sewer plant	900,000	900,000	893,636	(6,364)
Depreciation - office building	35,000	35,000	33,664	(1,336)
Total Operating Expenditures	5,646,659	5,646,659	5,884,286	237,627
Operating Income	865,796	865,796	958,378	92,582
Non-operating revenues (expenses):				
Interest income	-	-	118,204	118,204
Interest expense	-	-	(577,738)	(577,738)
Debt administration fees	-	-	(74,126)	(74,126)
Total Non-Operating Revenues (Expenses):	-	-	(82,642)	(82,642)
Income Before Transfers	865,796	865,796	875,736	9,940
Transfers out- City of Shelbyville	-	-	(150,380)	(150,380)
Net Change in Fund Balance	865,796	865,796	725,356	$ (140,440)
Net Position, June 30, 2017, as originally stated	28,419,622	28,419,622	28,419,622	
Prior Period Adjustment (Note 14)	-	-	(655,158)	
Net Position, June 30, 2017, as restated	28,419,622	28,419,622	27,764,464	
Net Position, June 30, 2018	$ 29,285,418	$ 29,285,418	$ 28,489,820	

See accompanying notes to the financial statements.

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Revenues - Budget to Actual
For the Year Ended June 30, 2018

	Budget			
	Original	Final	Actual	Variance - Over (Under)
Water Sales:				
Industrial sales	$ 400,500	$ 400,500	$ 409,812	$ 9,312
Residential sales	2,186,911	2,186,911	2,222,498	35,587
Commercial sales	299,050	299,050	306,392	7,342
Sales to West Shelby Water District	140,000	140,000	165,341	25,341
Sales to Noth Shelby Water District	215,000	215,000	214,341	(659)
Sales to East US 60 Water District	125,000	125,000	166,819	41,819
Private fire protection	89,000	89,000	88,154	(846)
Public fire protection	5,418	5,418	5,428	10
Other water sales	44,500	44,500	46,660	2,160
Total Water Sales	$ 3,505,379	$ 3,505,379	$ 3,625,445	$ 120,066
Sewer Service				
Industrial service	$ 515,000	$ 515,000	$ 513,958	$ (1,042)
Residential service	1,839,208	1,839,208	1,883,665	44,457
Commercial service	412,218	412,218	424,534	12,316
Sewer pretreatment program	24,000	24,000	60,863	36,863
Other sewer service	82,500	82,500	204,891	122,391
Total Sewer Service	$ 2,872,926	$ 2,872,926	$ 3,087,911	$ 214,985
Other Revenues				
Water meter turn ons	$ 39,000	$ 39,000	$ 39,250	$ 250
Miscellaneous income	25,000	25,000	21,308	(3,692)
Handling late fee	52,000	52,000	48,786	(3,214)
Rental income	18,150	18,150	19,964	1,814
Total Other Revenues	$ 134,150	$ 134,150	$ 129,308	$ (4,842)

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2018

	Budget			
	Original	Final	Actual	Variance - Over (Under)
Direct Water Expenses:				
Operation, supervision and engineering	$ 15,000	$ 15,000	$ 14,114	$ (886)
Source of supply and pumping labor	220,000	220,000	205,324	(14,676)
Laboratory expense	98,000	98,000	86,653	(11,347)
Operating supplies	230,000	230,000	234,678	4,678
Maintenance - structures	80,000	80,000	86,759	6,759
Maintenance - pumping and filtering	83,000	83,000	110,128	27,128
Power	210,000	210,000	202,266	(7,734)
Maintenance - water mains	96,000	96,000	118,878	22,878
Maintenance - services and meters	86,800	86,800	80,904	(5,896)
Maintenance - hydrants	12,659	12,659	11,399	(1,260)
Meter readings	80,000	80,000	73,680	(6,320)
Sludge removal	8,400	8,400	4,088	(4,312)
Misc. labor	45,000	45,000	51,789	6,789
Vacation, holiday and sick-pay	74,500	74,500	68,358	(6,142)
Total Direct Water Expenses	$ 1,339,359	$ 1,339,359	$ 1,349,018	$ 9,659

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2018

	Budget			
	Original	Final	Actual	Variance - Over (Under)
Direct Sewer Expenses:				
Operation, supervision and engineering	$ 2,600	$ 2,600	$ 463	$ (2,137)
Sewer plant labor	125,473	125,473	125,051	(422)
Laboratory expense	32,500	32,500	29,762	(2,738)
Operating supplies	187,500	187,500	226,533	39,033
Maintenance - structures	28,689	28,689	23,683	(5,006)
Maintenance - disposal plant equipment	60,952	60,952	44,978	(15,974)
Power	218,000	218,000	212,586	(5,414)
Power - SD pump station	72,000	72,000	77,202	5,202
Maintenance - sewer mains	31,588	31,588	28,770	(2,818)
Maintenance - sewer manholes	5,500	5,500	6,194	694
Maintenance - pump stations	16,000	16,000	14,587	(1,413)
Maintenance - SD pump stations	125,000	125,000	135,192	10,192
Maintenance - flow monitoring	7,350	7,350	5,735	(1,615)
Pretreatment expense	26,000	26,000	26,627	627
Chronic tox testing	7,500	7,500	8,828	1,328
Sludge removal	24,501	24,501	31,388	6,887
Vacation, holiday and sick-pay	36,000	36,000	38,689	2,689
Labor - comm pump station	45,599	45,599	32,839	(12,760)
Pretreatment outside lab expense	18,000	18,000	13,181	(4,819)
Materials comm pump station	45,768	45,768	51,782	6,014
Maintenance - SD mains	600	600	533	(67)
Total Direct Sewer Expenses	$ 1,117,120	$ 1,117,120	$ 1,134,603	$ 17,483

Shelbyville Municipal Water and Sewer Commission
Schedule of Operating Expenses - Budget to Actual
For the Year Ended June 30, 2018

	Budget			
	Original	Final	Actual	Variance - Over (Under)
Administrative Expenses:				
Office salaries	$ 123,561	$ 123,561	$ 108,264	$ (15,297)
Office supplies and expenses	72,000	72,000	73,221	1,221
Uncollectible revenue	10,000	10,000	9,939	(61)
Management salaries	145,000	145,000	142,672	(2,328)
Management training	2,400	2,400	9,636	7,236
Legal and accounting	60,000	60,000	47,794	(12,206)
Commission member fees	35,300	35,300	33,220	(2,080)
Insurance	160,000	160,000	161,670	1,670
Employee insurance	232,000	232,000	156,256	(75,744)
Employee retirement	262,246	262,246	573,607	311,361
Miscellaneous expenses	88,000	88,000	110,700	22,700
Maintenance - general properties	9,600	9,600	9,036	(564)
Maintenance - safety equipment	15,000	15,000	16,247	1,247
Safety training	3,600	3,600	5,238	1,638
Truck and equipment expenses	105,000	105,000	105,288	288
Distribution shop supplies	21,800	21,800	25,777	3,977
Office cleaning and maintenance	1,000	1,000	14	(986)
Office utilities	8,400	8,400	7,473	(927)
Payroll taxes	100,000	100,000	100,338	338
Vacation, holiday and sick-pay	31,073	31,073	27,992	(3,081)
Office janitorial	12,000	12,000	8,250	(3,750)
Office maintenance	7,200	7,200	7,847	647
Total Administrative Expenses	$ 1,505,180	$ 1,505,180	$ 1,740,479	$ 235,299

Shelbyville Municipal Water and Sewer Commission
Board of Commissioners
June 30, 2018

	Term Expires
Mayor Tom Hardesty	December 31, 2018
Wayne Stratton	June 30, 2020
Gil Tucker	June 30, 2021
Hubert Pollett	June 30, 2019
Val Owens	June 30, 2020
Al Andrews	June 30, 2021
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, 2018, and the related notes to the financial statements, which collectively comprise Commission's basic financial statements and have issued our report thereon dated April 4, 2019.

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 4, 2019