SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015

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**Richardson
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Shelbyville Municipal Water and Sewer Commission, a component unit of the City of Shelbyville, Kentucky, as of and for the year ended June 30, 2015, which collectively comprise the Shelbyville Water and Sewer 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 the *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

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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 that 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 business-type activities of the Shelbyville Municipal Water and Sewer Commission, a component unit of the City of Shelbyville, Kentucky, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be 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 to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015, on our consideration of the Shelbyville Municipal Water and Sewer Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shelbyville Municipal Water and Sewer Commission's internal control over financial reporting and compliance.

Richardson, Pennington + Skinner, PSC

Louisville, Kentucky
December 4, 2015

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
Current Assets:	
Operating cash	$ 555,610
Accounts receivable	543,390
Due from others	387,632
Materials inventory	108,024
Prepaid expenses	141,566
Total Current Assets	1,736,222
Restricted Assets:	
Debt service fund	612,125
Debt service reserve fund	749,351
Depreciation fund	2,582,407
Special construction fund	2,230,903
Surplus fund	177,974
Total Restricted Assets	6,352,760
Noncurrent Assets:	
Capital Assets:	
Water plant in service	23,387,215
Sewer plant in service	29,521,889
Administrative and general	1,689,530
Water rights	165,652
Construction work in progress	912,566
Total	55,676,852
Less: Accumulated Depreciation	(25,311,714)
Total Capital Assets	30,365,138
Unamortized debt issue expenses	110,235
Total Noncurrent Assets	30,475,373
DEFERRED OUTFLOWS OF RESOURCES	
Pension - Commission contributions subsequent to the measurement date	191,340
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 38,755,695**

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2015

LIABILITIES AND NET POSITION	
LIABILTIES	
Current Liabilities:	
Accounts payable	$ 219,114
Customer deposits	273,794
Accrued and withheld expenses	64,994
Accrued interest - customer deposits	108,505
Payable from restricted assets	
Fixed rate lease obligation	925,000
Accounts payable - construction	85,190
Total Current Liabilities	1,676,597
Noncurrent Liabilities:	
Fixed rate lease obligation	9,870,000
Net pension liability	1,475,000
Total Noncurrent Liabilities:	11,345,000
TOTAL LIABILITIES	13,021,597
DEFERRED INFLOWS OF RESOURCES	
Pension - Difference between projected and actual investment earnings	165,000
TOTAL LIABILITIES AND DEFERRED INFLOWS	**13,186,597**
NET POSITION	
Invested in capital assets, net of related debt	17,182,572
Restricted for debt service	4,054,118
Restricted for capital projects	3,058,279
Restricted surplus	177,974
Unrestricted	1,096,155
TOTAL NET POSITION	**25,569,098**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 38,755,695**

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

Operating Revenues:	
Water sales	$ 2,784,797
Sewer service	2,474,735
Other revenues	138,786
Total Operating Revenue	5,398,318
Operating Expenses:	
Direct water expenses	1,125,460
Direct sewer expenses	788,247
Administrative expenses	1,262,806
Amortization-debt issue expense	44,253
Depreciation-water plant	601,570
Depreciation-sewer plant	811,911
Depreciation-office building	53,263
Total Operating Expenses	4,687,510
Operating Income	710,808
Non-Operating Revenues (Expenses):	
Interest income	21,262
Interest expenses-long term debt	(447,950)
Debt administration fees	(66,520)
Total Non-Operating Revenues (Expenses)	(493,208)
Income Before Contributions and Transfers	217,600
Capital contributions	1,128,542
Transfers out - City of Shelbyville	(164,805)
Change in Net Position	1,181,337
Net Position, June 30, 2014 - previously stated	25,909,761
Restatement due to adoption of GASB 68 and 71	(1,522,000)
Net Position, June 30, 2014 - as restated	24,387,761
Net Position, June 30, 2015	**$ 25,569,098**

Debt Service Coverage

Current year debt service coverage	1.60
Maximum year debt service coverage	1.57

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Cash Flow From Operating Activities	
Receipts from customers	$ 5,387,535
Payments to suppliers	(2,152,526)
Payments to employees	(1,355,484)
Internal transfers	(380,421)
Net cash provided by operating activities	1,499,104
Cash Flow from Noncapital Financing Activities	
Transfer to City	(164,805)
Net cash used by noncapital financing activities	(164,805)
Cash Flows From Capital And Related Financing Activities:	
Capital contributions	1,128,542
Purchase of capital assets	(1,067,076)
Principal paid on long-term debt	(890,000)
Interest paid on long-term debt	(447,950)
Administrative fees paid on long-term debt	(66,520)
Net cash used by capital and related financing activities	(1,343,004)
Cash Flows From Investing Activities:	
Interest received	21,262
Net cash provided by investing activities	21,262
Net Increase in Cash and Cash Equivalents	12,557
Cash and Cash Equivalents, Beginning of Year	543,053
Cash and Cash Equivalents, End of Year	$ 555,610
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities	
Operating income	$ 710,808
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,466,744
Amortization	44,253
Change in assets and liabilities:	
Restricted assets	(380,421)
Accounts receivable	(10,783)
Prepaid expenses	(4,021)
Due from others	(375,608)
Deferred outflows	(44,340)
Inventory	1,644
Accounts payable	129,972
Customer deposits	9,194
Other accrued liabilities	(19,338)
Net pension liability	(194,000)
Deferred inflows	165,000
Net Cash Provided by Operating Activities	$ 1,499,104

The notes to the financial statements are an integral part of this statement.

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.

Accrual Basis

Customer meters are read and billed monthly at which time the receivable is recorded and revenue is recognized. No provision has been provided for doubtful accounts due to the amount determined to be uncollectible.

Financial statement presentation

The financial statements of the Commission are prepared in accordance with generally accepted accounting principles (GAAP). The Commission's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB Pronouncements. The Commission's reporting entity does not apply FASB pronouncements or APB Opinions issued after November 30, 1989.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

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.

Inventory

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

Trade Accounts Receivable

Trade accounts receivable are reported at the amount management expects to collect from outstanding balances. Management considers all accounts receivable as collectible at year end.

Amortization

The debt issue expense is amortized by the debt outstanding method over the term of the issue.

Utility assets

All property and equipment is recorded at cost. Interest and loan fees incurred on funds borrowed for construction is capitalized during the construction period.

Depreciation

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	
Building and improvements	20-50 years
Machinery and equipment	5-10 years
Water and sewer systems	50 years
Infrastructures	20-50 years

Customer deposits

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

New customers

New 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fixed rate lease purchase agreements require debt service coverage of 1.20.

Accumulated vacation and sick leave

Vacation is earned at rates varying between 1 to 15 days per year depending on the length of service. Vacations must be taken during the year ended. 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 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

The Commission participates in the County Employees Retirement System. All eligible regular full-time employees are authorized and directed to participate in the system.

Cash equivalents

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

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.

Transfers

Pursuant to an Interlocal Cooperation Agreement dated January 31, 2000 between the City of Shelbyville, the Shelbyville Municipal Water Commission, and the County of Shelby, the City 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.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

At June 30, 2015, the carrying amount of the Commission's cash investments were $6,908,370 and the various bank balances were $7,866,952. All cash investments were treasury certificates or were covered by collateral in the form of pledged treasury certificates. All of the bank balances were covered by the $250,000 federal depository insurance or pledged treasury certificates.

NOTE 3 - RESTRICTED FUNDS AND INVESTMENTS

Following is a schedule of the restricted funds and investments.

	Debt Service Fund	Debt Service Reserve Fund	Depreciation Fund	Construction Fund	Surplus Fund
Cash	$ 612,125	$ -0-	$ 2,582,407	$ 2,230,903	$ 177,974
U.S. Gov Sec	-0-	$ 749,351	-0-	-0-	-0-
Total	$ 612,125	$ 749,351	$ 2,582,407	$ 2,230,903	$ 177,974

The series 1998A, 2002A, and 2008 fixed rate lease purchase agreements dated June 1, 1998, October 10, 2002, and June 30, 2008 respectively require that the Commission establish various funds and accounts and make various monthly transfers.

NOTE 4 - UTILITY PLANT

The water system acquired assets from the Kentucky Water Service Company and all subsequent additions are recorded at cost. The sewer system is not recorded at cost. The actual cost to the Commission was the payment of outstanding Sewerage System Revenue Bonds in the amount of $9,000. An appraisal made at the time of acquisition showed the system to have a net sound value of $200,000. Consequently, entries were made in the Commission's records recording this amount as an asset. Subsequent additions have been recorded at cost. On April 1, 2000, the Sanitation District's assets were transferred to the Commission with a net book value of $2,403,525. Following is a schedule of the utility plant:

NOTE 4 - UTILITY PLANT (CONTINUED)

Water plant	
Source of supply land	$ 36,238
Power and pumping land	21,500
Source of supply structures	4,582,737
Pumping structures	417,840
Standpipes	3,409,071
Purification system	3,002,687
Dam and line	300,409
Miscellaneous structures	44,521
Pumping equipment	2,391,065
Distribution mains	6,054,252
Services and meters	2,780,010
Hydrants	346,885
Total water plant	$ 23,387,215
Sewer plant	
Land	$ 124,126
Structures	9,090,033
Distribution lines	12,304,101
Manholes	867,115
Disposal plant equipment	7,128,946
Office furniture and fixtures	7,568
Total sewer plant	$ 29,521,889
Administrative and general	
Land and building	$ 674,918
Office furniture and fixtures	332,632
Transportation equipment	471,079
Shop equipment	210,901
Total administrative and general	$ 1,689,530
Water rights	$ 165,652
Construction in progress	
Water plant	$ 399,997
Sewer plant	512,569
Total construction in progress	$ 912,566

NOTE 4 - UTILITY PLANT (CONTINUED)

The construction in progress water plant includes the following projects:

1) Chloramine conversion at water treatment plant.

Engineering	$ 43,287
Construction and other costs	3,863
	$ 47,150

The estimated cost of this project is $1,037,207.

2) Interstate 64 regional pipeline study.

Engineering	$ 159,795
Other costs	46,166
	$ 205,961

This contract is in the design phase and has not been awarded.

3) Building of Downtown water storage tank.

Engineering	$ 26,981
Construction and other costs	45,372
	$ 72,353

The estimated cost of this project is $1,338,813.

4) Water plant filter improvements study.

Engineering	$ 18,200
Other costs	614
	$ 18,814

The estimated cost of this project is $18,900.

5) Relocation of water lines at Mt. Eden Road.

Construction and other costs	$ 2,230
	$ 2,230

This contract is ongoing at year-end.

NOTE 4 - UTILITY PLANT (CONTINUED)

6) Waterline extension at Clear Creek Park.

Engineering	$ 1,935
Construction and other costs	22,606
	$ 24,541

This contract is ongoing at year-end.

7) Water Treatment Plant rehabilitation.

Engineering	$ 17,000
Construction and other costs	614
	$ 17,614

This contract is in the design phase and has not been awarded.

8) Construction of Industrial Park tank.

Construction and other costs	$ 4,316
	$ 4,316

This contract is in the design phase and has not been awarded.

9) Relocation of water lines near U.S. 60.

Engineering	$ 5,570
Construction and other costs	1,448
	$ 7,018

The estimated cost of this project is $133,200.

The construction in progress sewer plant includes the following project:

1) Phase II Force Main at KY 55.

Engineering	$ 4,341
	$ 4,341

The contract is in the design phase and has not been awarded.

2) Sanitary replacement near Bradshaw Street.

Engineering	$ 60,140
Construction and other costs	309,103
	$ 369,243

NOTE 4 - UTILITY PLANT (CONTINUED)

The estimated cost of this project is $719,000.

3) Diaego Pump Station and Force Main.

Engineering	$ 75,840
Construction and other costs	7,919
	$ 83,759

The estimated cost of this project is $1,250,000.

4) Benson Road gravity sewer line.

Engineering	$ 33,065
Construction and other costs	10,933
	$ 43,998

The estimated cost of this project is $950,000.

5) Wastewater and treatment plant sludge processing and disposal study.

Engineering	$ 11,228
	$ 11,228

The estimated cost of this project is $26,480.

NOTE 5 - UNAMORTIZED DEBT ISSUE EXPENSE

The 1998A, 2002A, and 2004C debt issuance cost and unamortized expenses of the 1991 issue, that the 1998A and 2002A retired, are being amortized over the lives of the lease agreements. On April 1, 2000 the Sanitation District's assets and liabilities were merged with the Commission. This resulted in additional unamortized debt issue expense that is being amortized over a 20 year period. On July 14, 2000 new revenue bonds were issued. The new issuance cost is also being amortized over a 20 year period. On June 30, 2008 the refinancing of 1998A debt resulted in additional unamortized debt that is being amortized over a 10 year period.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	$ 181,864	$ -0-	$ -0-	$ 181,864
Water rights	165,652	-0-	-0-	165,652
Construction work in progress	317,549	708,887	113,870	912,566
Total capital assets, not being depreciated	665,065	708,887	113,870	1,260,082
Capital assets, being depreciated:				
Water plant	22,939,713	389,764	-0-	23,329,477
Sewer plant	29,369,274	28,489	-0-	29,397,763
Administrative and shop buildings	652,337	22,581	-0-	674,918
Machinery and equipment	1,016,389	14,723	16,500	1,014,612
Total capital assets, being depreciated	$ 53,977,713	$ 455,557	$ 16,500	$ 54,416,770
Less accumulated depreciation:				
Water plant	$ 11,238,275	$ 582,888	$ -0-	$ 11,821,163
Sewer plant	11,469,671	811,911	-0-	12,281,582
Administrative and shop buildings	363,972	13,016	-0-	376,988
Machinery and equipment	789,552	58,929	16,500	831,981
Total accumulated depreciation	23,861,470	1,466,744	16,500	25,311,714
Total capital assets, being depreciated, net	30,116,243	(1,011,187)	-0-	29,105,056
Business-type activities capital assets, net	$ 30,781,308	$ (302,300)	$ 113,870	$ 30,365,138

NOTE 7 - FIXED RATE LEASE OBLIGATION

On June 1, 1998 the City of Shelbyville entered into a fixed rate lease purchase agreement with the Kentucky Municipal Finance Corporation as lessor. Under the agreement, revenue bonds of $9,540,000 were sold at par. $3,607,880 of these funds was used to purchase US government securities. Those securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on a portion of the 1991 lease purchase agreement. As a result, the fixed rate lease portion held in escrow is considered defeased and the liability has been removed from the statement of net assets.

The bonds sold under the 1998 lease agreement will be retired over a period of twenty (20) years with interest rates from 4.0% to 5.15%. The annual base period rentals, including interest, under the agreement range from $680,515 to $1,025,213. These bonds were paid in full with the new (2008) lease agreement. 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.

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.

NOTE 7 - FIXED RATE LEASE OBLIGATION (CONTINUED)

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.

Outstanding revenue bonds under the lease as of July 1, 2014	$ 11,685,000
Less: Bonds retired during the fiscal year	890,000
Bonds outstanding June 30, 2015	10,795,000
Less: Current bonds outstanding	925,000
Long term bonds outstanding	$ 9,870,000

Future maturities of long term debt:

Year Ending	Principal	Interest	Amount
2016	925,000	408,291	1,333,291
2017	965,000	372,805	1,337,805
2018	1,020,000	334,981	1,354,981
2019	124,901	294,781	419,682
2020	855,803	276,425	1,132,228
2021-2025	4,370,425	901,656	5,272,081
2026-2028	2,533,871	129,219	2,663,090
Totals	**$ 10,795,000**	**$ 2,718,158**	**$ 13,513,158**

NOTE 8 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities of the Commission as of June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fixed rate lease obligation:					
KLC Series 2000	$ 320,000	$ -0-	$ 40,000	$ 280,000	$ 40,000
KLC Series 2004A	7,750,000	-0-	-0-	7,750,000	-0-
Series 2008 Revenue	3,615,000	-0-	850,000	2,765,000	885,000
Total	$ 11,685,000	$ -0-	$ 890,000	$ 10,795,000	$ 925,000

NOTE 9 – RETIREMENT PLAN

General Information about the Pension 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

NOTE 9 – RETIREMENT PLAN (CONTINUED)

General Information about the Pension Plan (Continued)

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.

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of their salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. 5% of the contribution was deposited to the member's account while the 1% was 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). The Commission makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015 and June 30, 2014, employers contributed 17.67% and 18.89% as set by KRS, respectively, of each Nonhazardous employee's creditable compensation, and 34.31% and 35.70%, respectively, for each Hazardous employee. For the year ended June 30, 2015 and June 30, 2014, total employer and employee contributions for the Commission were $246,808 and $250,368, respectively. By law, employer contributions are required to be paid. The KRS may intercept the Commission's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The Commission's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date (See Note 13 for a restatement related to the net pension liability.)

Actuarial assumptions. The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Net Pension Liability (Continued)

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2005 through June 30, 2008. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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 2005 through 2008, is outlined in a report dated August 25, 2009. 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 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 assumptions are 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.

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7.00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Net Pension Liability (Continued)

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.75 percent based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed the employee contributions will be made at the current rate and that contributions from the Commission will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the Commission calculated using the discount rate of 7.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability - nonhazardous	$ 1,940,990	$ 1,475,000	$ 1,063,270
Total	$ 1,940,990	$ 1,475,000	$ 1,063,270

The Commission's proportionate share of the Plan's net pension liability, as indicated in the prior table, is $1,475,000 for Nonhazardous. The Commission's proportioned share of the CERS plan was 0.045463% for Nonhazardous.

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. The Commission's proportioned share of pension expense was $118,000 for Nonhazardous service employees.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments		$ 165,000
Contributions subsequent to the measurement date of June 30, 2014	$ 191,340	
Total	$ 191,340	$ 165,000

Deferred inflows of resources resulting from the differences between projected and actual investment earnings on the Plan investments are amortized over a 5 year period. Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30, :

2016	$ 158,340
2017	(33,000)
2018	(33,000)
2019	(33,000)
2020	(33,000)
	$ 26,340

In the table shown above, positive amounts will increase pension expense and negative amounts will decrease pension expense.

NOTE 10 – EMPLOYEE HEALTH BENEFIT PLAN

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

The plan is fully funded by the employer. Funds for payment of claims considered under the plan are forwarded to accounts from which claims are to be paid. The City of Shelbyville maintains this fund 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 through the City of Shelbyville has purchased excess stop-loss insurance that exceeds $45,000 per covered individual for the fiscal year ended June 30, 2015.

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Commission in estimating its fair value disclosures for financial instruments:

- Operating cash: The carrying amounts reported in the statement of net assets approximate fair values because of the short maturities of those instruments.

- Restricted assets: The carrying amounts reported in the statement of net assets approximate fair values because of the short maturities of those instruments.

The estimated fair values of the Commission's financial instruments are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Operating cash	$ 555,610	$ 555,610
Debt service fund	612,125	612,125
Debt service reserve fund	749,351	749,351
Depreciation fund	2,582,407	2,582,407
Special construction fund	2,230,903	2,230,903
Surplus fund	177,974	177,974

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the Commission's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	Fair Value Measurements at Reporting Date Using:	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
June 30, 2015		
Money market investments	$ 749,351	$ 749,351

NOTE 12 – SUBSEQUENT EVENT POLICY

The Commission has evaluated subsequent events through December 4, 2015, the date which the financial statements were available to be issued.

NOTE 13 - RESTATEMENT OF BEGINNING NET POSITION RELATED TO FISCAL YEAR ENDING JUNE 30, 2014

Beginning net position for governmental activities for June 30, 2014 was restated to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*- an amendment of GASB Statement No. 68 and to record beginning net pension liability and deferred outflows related to the pension.

Net position - June 30, 2014, prior to restatement		$ 25,909,761
Increase in Net Pension Liability	(1,669,000)	
Increase in Deferred Outflows	147,000	
Decrease in Net Position		(1,522,000)
Net position - June 30, 2014 (as restated)		$ 24,387,761

REQUIRED SUPPLEMENTARY INFORMATION

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Budget			Variance -
	Original	Final	Actual	Over (Under)
Operating Revenues:				
Water sales	$ 2,793,139	$ 2,793,139	$ 2,784,797	$ (8,342)
Sewer service	2,539,611	2,539,611	2,474,735	(64,876)
Other revenues	122,700	122,700	138,786	16,086
Total Operating Revenue	5,455,450	5,455,450	5,398,318	(57,132)
Operating Expenses:				
Direct water expenses	1,073,205	1,073,205	1,125,460	52,255
Direct sewer expenses	843,145	843,145	788,247	(54,898)
Administrative expenses	1,342,123	1,342,123	1,262,806	(79,317)
Amortization-debt issue expense	55,000	55,000	44,253	(10,747)
Depreciation-water plant	595,807	595,807	601,570	5,763
Depreciation-sewer plant	800,195	800,195	811,911	11,716
Depreciation-office building	50,693	50,693	53,263	2,570
Total Operating Expenses	4,760,168	4,760,168	4,687,510	(72,658)
Operating Income	695,282	695,282	710,808	15,526
Non-Operating Revenues (Expenses):				
Interest income	13,500	13,500	21,262	7,762
Interest expenses-long term debt	(474,068)	(474,068)	(447,950)	26,118
Debt administration fees	(68,000)	(68,000)	(66,520)	1,480
Total Non-Operating Revenues (Expenses)	(528,568)	(528,568)	(493,208)	35,360
Income Before Contributions and Transfers	166,714	166,714	217,600	50,886
Capital contributions	-0-	-0-	1,128,542	1,128,542
Transfers out - City of Shelbyville	-0-	-0-	(164,805)	(164,805)
Change in Net Position	166,714	166,714	1,181,337	1,014,623
Net Position, July 1, 2014 - previously stated	25,909,761	25,909,761	25,909,761	-0-
Restatement due to adoption of GASB 68 and 71	(1,522,000)	(1,522,000)	(1,522,000)	-0-
Net Position, July 1, 2014 - as restated	24,387,761	24,387,761	24,387,761	-0-
Net Position, June 30, 2015	**$ 24,554,475**	**$ 24,554,475**	**$ 25,569,098**	**$ 1,014,623**

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF OPERATING REVENUE -
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Budget			Variance -
	Original	Final	Actual	Over (Under)
Water Sales:				
Industrial sales	$ 277,909	$ 277,909	$ 270,126	$ (7,783)
Residential sales	1,980,455	1,980,455	1,956,955	(23,500)
Commercial sales	271,416	271,416	268,152	(3,264)
Sales to West Shelby Water District	124,652	124,652	134,378	9,726
Sales to North Shelby Water District	21,428	21,428	18,016	(3,412)
Private fire protection	73,860	73,860	79,914	6,054
Public fire protection	5,419	5,419	5,418	(1)
Other water sales	38,000	38,000	51,838	13,838
Total Water Sales	$ 2,793,139	$ 2,793,139	$ 2,784,797	$ (8,342)
Sewer Service:				
Industrial service	$ 385,027	$ 385,027	$ 391,449	$ 6,422
Residential service	1,709,725	1,709,725	1,687,224	(22,501)
Commercial service	352,667	352,667	305,111	(47,556)
Sewer pretreatment program	16,000	16,000	17,405	1,405
Other sewer service	76,192	76,192	73,546	(2,646)
Total Sewer Service	$ 2,539,611	$ 2,539,611	$ 2,474,735	$ (64,876)
Other Revenues:				
Water meter turn ons	$ 37,500	$ 37,500	$ 37,250	$ (250)
Miscellaneous income	15,000	15,000	29,944	14,944
Handling late fee	52,000	52,000	53,442	1,442
Rental income	18,200	18,200	18,150	(50)
Total Other Revenues	$ 122,700	$ 122,700	$ 138,786	$ 16,086

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF OPERATING EXPENSES -
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Budget			Variance -
	Original	Final	Actual	Over (Under)
Direct Water Expenses:				
Operation, supervision, and engineering	$ 12,000	$ 12,000	$ 13,918	$ 1,918
Source of supply and pumping labor	169,740	169,740	176,858	7,118
Laboratory expense	58,000	58,000	56,109	(1,891)
Operating supplies	203,000	203,000	200,711	(2,289)
Maintenance-structures	54,412	54,412	56,925	2,513
Maintenance-pumping and filtering	63,204	63,204	84,406	21,202
Power	148,000	148,000	152,902	4,902
Maintenance-water mains	60,810	60,810	60,083	(727)
Maintenance-services and meters	88,100	88,100	98,919	10,819
Maintenance-hydrants	7,480	7,480	13,621	6,141
Meter readings	75,710	75,710	70,944	(4,766)
Sludge removal	8,400	8,400	3,149	(5,251)
Misc labor	61,559	61,559	54,269	(7,290)
Vacation, holiday, sick-pay	62,790	62,790	82,646	19,856
Total Direct Water Expenses	$ 1,073,205	$ 1,073,205	$ 1,125,460	$ 52,255
Sewer Service:				
Operation, supervision, and engineering	600	600	1,443	843
Sewer plant labor	$ 107,060	$ 107,060	$ 106,929	$ (131)
Laboratory expense	20,000	20,000	15,735	(4,265)
Operating supplies	130,000	130,000	122,335	(7,665)
Maintenance-structures	21,634	21,634	30,408	8,774
Maintenance-disposal plant equipment	61,242	61,242	40,398	(20,844)
Power	132,000	132,000	129,205	(2,795)
Power-SD pump station	44,000	44,000	40,407	(3,593)
Maintenance-sewer mains	26,806	26,806	28,596	1,790
Maintenance-sewer manholes	4,871	4,871	4,336	(535)
Maintenance-pump stations	15,334	15,334	19,346	4,012
Maintenance-SD pump stations	116,300	116,300	103,397	(12,903)
Maintenance-flow monitoring	3,047	3,047	4,202	1,155
Pretreatment expense	20,000	20,000	13,493	(6,507)
Chronic tox testing	16,000	16,000	8,759	(7,241)
Sludge removal	19,812	19,812	20,471	659
Vacation, holiday, sick-pay	27,834	27,834	25,103	(2,731)
Labor - comm pump station	16,191	16,191	14,220	(1,971)
Pretreatment outside lab expense	15,000	15,000	16,694	1,694
Materials comm pump station	9,600	9,600	3,990	(5,610)
Maintenance - sd pump station	11,452	11,452	17,951	6,499
Maintenance - sd mains	1,362	1,362	214	(1,148)
Power - sd pump station	23,000	23,000	20,615	(2,385)
Total Direct Sewer Expenses	$ 843,145	$ 843,145	$ 788,247	$ (54,898)

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
STATEMENT OF OPERATING EXPENSES -
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

	Budget			Variance -
	Original	Final	Actual	Over (Under)
Administrative Expenses:				
Office salaries	$ 104,014	$ 104,014	$ 100,623	$ (3,391)
Office supplies and expenses	68,000	68,000	66,596	(1,404)
Uncollectible revenue	2,400	2,400	329	(2,071)
Management salary	150,838	150,838	137,188	(13,650)
Management training	6,000	6,000	2,091	(3,909)
Legal and accounting	56,000	56,000	37,424	(18,576)
Commission member fees	31,500	31,500	28,875	(2,625)
Insurance	136,837	136,837	136,498	(339)
Employee insurance	265,004	265,004	306,067	41,063
Employee retirement	204,257	204,257	118,030	(86,227)
Miscellaneous expenses	62,000	62,000	84,508	22,508
Maintenance-general properties	7,200	7,200	4,170	(3,030)
Maintenance-safety equipment	8,400	8,400	11,676	3,276
Safety training	3,600	3,600	1,831	(1,769)
Truck and equipment expenses	104,000	104,000	98,394	(5,606)
Distribution shop supplies	12,000	12,000	13,803	1,803
Office cleaning and maintenance	800	800	-0-	(800)
Office utilities	7,200	7,200	6,404	(796)
Interest-customer deposits	600	600	(382)	(982)
Payroll taxes	83,993	83,993	81,277	(2,716)
Vacation, holiday, sick-pay	14,280	14,280	16,670	2,390
Office janitorial	6,000	6,000	6,244	244
Office maintenance	7,200	7,200	4,490	(2,710)
Total Administrative Expenses	$ 1,342,123	$ 1,342,123	$ 1,262,806	$ (79,317)

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IN COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015

	June 30, 2014 Nonhazardous
Commission's proportion of the net pension liability	0.045463%
Commission's proportionate share of the net pension liability	$ 1,475,000
Commission's covered employee payroll	$ 1,033,042
Commission's proportion of the net position liability as a percentage of its covered employee payroll	142.78%
Total Pension Plan Pension Liability	$ 9,772,523,000
Total Pension Plan's Fiduciary Net Position	$ 6,528,146,000
Total Pension Plan Net Pension Liability	$ 3,244,377,000
Total Pension Plan's Fiduciary Net Position as a percentage of Total Pension Liability	66.80%

The notes to the financial statements are an integral part of this statement.

SHELBYVILLE MUNICIPAL WATER AND SEWER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COMMISSION'S CONTRIBUTIONS TO
THE COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015

	June 30, 2015 Nonhazardous
Statutorily required contribution for pension	$ 191,340
Commission's contributions in relation to the statutorily required contribution	(191,340)
Annual contribution deficiency (excess)	$ -0-
Commission's contributions as a percentage of statutorily required contribution for pension	100.00%
Commission's covered employee payroll	$ 1,082,852
Contributions as a percentage of its covered employee payroll	17.67%

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS INFORMATION

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the June 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level of Percentage of Payroll, closed
Remaining amortization period	29 years
Asset valuation	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of investment expense, including inflation

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

SUPPLEMENTAL INFORMATION

**Richardson
Pennington
& Skinner, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Shelbyville Municipal Water and Sewer Commission, a component unit of City of Shelbyville, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Shelbyville Municipal Water and Sewer Commission's basic financial statements, and have issued our report thereon dated December 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelbyville Municipal Water and Sewer Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelbyville Municipal Water and Sewer Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelbyville Municipal Water and Sewer Commission's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that

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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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shelbyville Municipal Water and Sewer 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson, Pennington & Skinner, PSC

Louisville, Kentucky
December 4, 2015