

SOUTHERN MADISON WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2020

Prepared by:

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White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the Southern Madison Water District
Berea, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (enterprise fund) of Southern Madison Water District (District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District'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 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 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 (enterprise fund) of the District, as of December 31, 2020, 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 schedules of the District's proportionate share of the net pension and OPEB liability, and schedules of contributions information as listed in the table of contents 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 omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who consider 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 1, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
December 1, 2021

Southern Madison Water District
STATEMENT OF NET POSITION
December 31, 2020

	2020
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 499,593
Certificates of deposit	166,598
Accounts receivable	152,051
Inventory	196,467
Prepaid expenses	12,259
Restricted cash and cash equivalents	46,315
Restricted certificates of deposit	185,195
Total current assets	1,258,478
Noncurrent assets:	
Certificates of deposit	182,611
Capital assets not being depreciated	70,788
Capital assets, net of accumulated depreciation	4,745,751
Other assets	2,020
Total noncurrent assets	5,001,170
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	210,090
Deferred outflows of resources related to OPEB	76,624
Total deferred outflows of resources	286,714
Total assets and deferred outflows of resources	\$ 6,546,362
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 84,250
Accrued liabilities:	
Payroll taxes	10,275
Other	5,232
Interest	285
Customer deposits	204,311
Total current liabilities	304,353
Noncurrent liabilities:	
Net pension liability	934,692
Net OPEB liability	223,481
Total noncurrent liabilities	1,158,173
Deferred Inflows of Resources:	
Deferred inflow of resources related to pensions	47,865
Deferred inflow of resources related to OPEB	86,829
Total deferred inflows of resources	134,694
Total liabilities and deferred inflows of resources	1,597,220
NET POSITION	
Net investment in capital assets	4,816,539
Unrestricted	132,603
Total net position	4,949,142
Total liabilities, deferred inflows of resources and net position	\$ 6,546,362

The accompanying notes are an integral part of these financial statements.

Southern Madison Water District
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2020

	2020
OPERATING REVENUES:	
Water sales	\$ 1,845,542
Other sales:	
Late charges	9,193
Miscellaneous	40,734
Total operating revenues	1,895,469
OPERATING EXPENSES:	
Salaries and wages	343,533
Employee benefits	227,094
Payroll taxes	24,832
Purchased water	1,068,505
Dues & subscription	6,001
Office expenses	64,985
Accounting & legal	18,216
Repairs & maintenance	174,806
Truck & equipment expense	22,385
Insurance	24,681
Utilities	38,093
Depreciation	229,388
Miscellaneous	2,612
Total operating expenses	2,245,129
OPERATING INCOME (LOSS)	(349,661)
NONOPERATING REVENUES (EXPENSES)	
Earnings on investments	15,428
Loss on retirement of capital assets	(43,255)
Miscellaneous income	10,096
Interest expense	(1,229)
Total nonoperating revenues (expenses)	(18,961)
INCOME (LOSS) BEFORE CONTRIBUTIONS	(368,621)
Capital contributions	68,360
Total capital contributions	68,360
CHANGE IN NET POSITION	(300,261)
NET POSITION, BEGINNING	5,249,403
NET POSITION, ENDING	\$ 4,949,142

The accompanying notes are an integral part of these financial statements.

Southern Madison Water District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020

	<u>2020</u>
Cash flows from operating activities:	
Cash received from customers and other sources	\$ 1,895,469
Cash payments to suppliers for goods and services	(1,352,172)
Cash payments for employees and benefits	(595,458)
Net cash provided (used) by operating activities	<u>(52,162)</u>
Cash flows from capital and related financing activities:	
Purchases and construction of capital assets	(163,727)
Proceeds from capital contributions	68,360
Other cash flows	10,096
Interest expense on customer deposits	(1,229)
Net cash provided (used) by capital and related financing activities	<u>(86,500)</u>
Cash flows from investing activities:	
Interest income received	15,428
Net cash provided (used) by investing activities	<u>15,428</u>
Net increase (decrease) in cash and cash equivalents	(123,234)
Cash and cash equivalents, beginning of year	<u>669,142</u>
Cash and cash equivalents, end of year	<u>\$ 545,908</u>
Reconciliation of total cash and cash equivalents to the statement of net position:	
Unrestricted cash and cash equivalents	499,593
Restricted cash and cash equivalents	46,315
Total cash and cash equivalents	<u>\$ 545,908</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (349,661)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/Amortization	229,388
<i>(Increase) decrease in assets:</i>	
Certificates of deposit	(15,035)
Accounts receivable	8,780
Inventory	(4,129)
Prepaid expenses	(387)
Deferred outflows-pension	6,263
Deferred outflows-OPEB	(21,961)
<i>Increase (decrease) in liabilities:</i>	
Deferred inflows-pension	(32,835)
Deferred inflows-OPEB	34,523
Net pension liability	123,951
Net OPEB liability	(12,871)
Accounts payable	(3,054)
Accrued liabilities	(7,895)
Customer deposits	(7,239)
Net cash provided (used) by operating activities	<u>\$ (52,162)</u>

The accompanying notes are an integral part of these financial statements.

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

NOTE 1 – Reporting entity and significant accounting policies

(a) *Description of the reporting entity*

Southern Madison Water District (District) was formed in 1969 by the Madison County, Kentucky Fiscal Court under Kentucky Revised Statute Chapter 74 for the purpose of providing potable drinking water to residents and businesses in southern Madison County. At December 31, 2020, the District had 5,252 customers. The District is overseen by a three member board of commissioners appointed by the county judge/executive and approved by the Fiscal Court. The District is self-supporting through the charges it makes for water sold. The Fiscal Court makes no financial contribution to the District nor do they have any management function with the District. The District is subject to the Public Service Commission of the Commonwealth of Kentucky as to what rates it may charge for water and other service fees. The District is also subject to safe drinking water regulations issued by the Division of Water. The District purchases treated water, ready for distribution, from the City of Berea, Kentucky.

(b) *Basis of accounting*

The District operates and reports as an enterprise utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

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

(c) *Applicable accounting standards*

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of the GASB.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(d) *Restricted cash, cash equivalents and certificates of deposit*

Restricted cash, cash equivalents and certificates of deposit represent amounts held in trust at the bank and are set aside for customer deposits liability.

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 For the Year Ended December 31, 2020

(e) *Cash and Cash Equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

(f) *Certificates of deposit*

Certificates of deposit are non-brokered certificates of deposit with financial institutions and are reported in the accompanying statement of net position at amortized cost which approximates fair value.

(g) *Accounts receivable*

The District accounts for the billings to customers as accounts receivable. Management considers accounts receivable to be fully collectible/ accordingly no allowance for doubtful accounts is required. If accounts receivable become uncollectible, they will be charged-off when that determination is made.

(h) *Inventory*

The District maintains a detailed inventory of supplies needed to maintain the water infrastructure. Inventory is stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

(i) *Prepaid expenses*

Payments made by the District that benefit periods beyond December 31st are classified as prepaid expenses. A current asset is recorded at the time of purchase and an expense is made per the consumption method. The prepayment of expenses is for the numerous insurances required on behalf of the District's employees' and its infrastructure.

(j) *Capital assets*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Transmission main lines	50-75 years
Meters and settings	20-25 years
Hydrants and flush valves	40-50 years
Buildings	40 years
Vehicles	3-5 years
Equipment	7-20 years
Office furniture, fixtures	5-10 years

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

(k) *Customer deposits*

Deposits are required by the District for each customer to receive services. The deposits are maintained by the District and returned when services are no longer used or other qualifying event by the District's policy.

(l) *Net investment in capital assets*

Net investment in capital assets is the net amount of the capital assets less the amounts payable for long-term debt financing those capital assets.

(m) *Statement of cash flows*

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and cash equivalents and restricted cash and cash equivalents.

(n) *Use of estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(o) *Capital contributions*

Capital contributions include the amounts paid by state and local governments that arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

(p) *Pensions*

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

(q) *Postemployment Benefits Other Than OPEBs (OPEB)*

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the County Retirement System of Kentucky (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

(r) *Recently Issued Standards*

The District has implemented the following new accounting pronouncements:

GASB issued Statement No. 84, *Fiduciary Activities*, effective for the District's fiscal year ending December 31, 2020.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the District's fiscal year ending December 31, 2020.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for the District's fiscal year ending December 31, 2020.

GASB issued Statement No. 95, *Postponement of the Effective dates of Certain Authoritative Guidance*, effective for the District's fiscal year ending December 31, 2020.

The adoption of GASB statement Numbers 84, 88, 90 and 95 did not have an impact on the District's financial position or results of operations.

The District will adopt the following new accounting pronouncements in future years:

GASB issued Statement No. 87, *Leases*, effective for the District's fiscal year ending December 31, 2021.

GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the District's fiscal year ending December 31, 2021.

GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for the District's fiscal year ending December 31, 2022.

GASB issued Statement No. 92, *Omnibus 2020*, effective for the District's fiscal year ending December 31, 2022.

GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the District's fiscal year ending December 31, 2022.

GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the District's fiscal year ending December 31, 2023.

GASB issued statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the District's fiscal year ending December 31, 2023

GASB issued statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and A Supersession of GASB Statement No. 32*, effective for the District's fiscal year ending December 31, 2022

The District will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective dates.

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

NOTE 2 – Budgetary data

The District’s Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all Special Purpose Governmental Entities for the Kentucky Department of Local Government.

NOTE 3 – Cash, cash equivalents and certificates of deposit

Cash, cash equivalents and certificates of deposit as of December 31, 2020 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current:	Amount
Cash and cash equivalents	\$ 499,593
Certificates of deposit	166,598
Restricted cash and cash equivalents	46,315
Restricted certificates of deposit	185,195
 Non-current:	
Certificates of deposit	<u>182,611</u>
Total cash, cash equivalents and certificates of deposit	<u>\$1,080,312</u>

Cash, cash and equivalents and certificates of deposit as of December 31, 2020 consist of the following:

Cash and cash equivalents:	Amount
Cash on hand	\$ 575
Deposits with financial institutions	<u>545,333</u>
Total cash and cash equivalents	545,908
 Certificates of deposit	<u>534,404</u>
Total cash, cash equivalents and certificates of deposit	<u>\$1,080,312</u>

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

Custodial risk

Custodial risk for deposits (demand deposits and non-brokered certificates of deposit) is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2020, the District's deposits with financial institutions were collateralized or uncollateralized as follows:

		Bank Balance		
<u>Peoples Bank</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ 250,000	\$ -	\$ 250,000	
Securities Pledged	234,967	-	234,967	
Bank balance	\$ 484,967	\$ -	\$ 484,967	
<u>Central Bank & Trust</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ 80,337	\$ 178,545	\$ 258,882	
Securities Pledged	-	-	\$ -	
Bank balance	\$ 80,337	\$ 178,545	\$ 258,882	
<u>Citizens Guaranty</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ -	\$ 250,000	\$ 250,000	
Uncollateralized	-	105,858	\$ 105,858	
Bank balance	\$ -	\$ 355,858	\$ 355,858	

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

NOTE 4 – Capital assets

Capital asset activity for the calendar year ended December 31, 2020, was as follows:

	<u>Balance at 12/31/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2020</u>
Land	\$ 70,788	\$ -	\$ -	\$ 70,788
Capital Assets Not Being Depreciated				
Buildings	355,645	-	-	355,645
Distribution & Storage	9,126,100	128,050	(194,635)	9,059,515
Vehicles & Equipment	622,377	35,675	-	658,052
Capital Assets Being Depreciated	<u>10,104,122</u>	<u>163,725</u>	<u>(194,635)</u>	<u>10,073,212</u>
Accumulated Depreciation	<u>(5,249,453)</u>	<u>(229,388)</u>	<u>151,380</u>	<u>(5,327,461)</u>
Net Capital Assets Being Depreciated	<u>4,854,669</u>	<u>(65,663)</u>	<u>(43,255)</u>	<u>4,745,751</u>
Total Capital Assets, Net	<u>\$ 4,925,457</u>	<u>\$ (65,663)</u>	<u>\$ -</u>	<u>\$ 4,816,539</u>

NOTE 5 – Pension Plan

County Employees Retirement System

Plan description—Substantially all full-time classified employees of the District participate in the County Employees Retirement System (“CERS”). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending December 31, 2020, employers were required to contribute 21.48% of the member’s salary. During the year ending December 31, 2020, the District contributed \$73,057 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

CERS-Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

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

At December 31, 2020, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2019 was determined using standard roll-forward techniques. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2019. At December 31, 2020, the District’s proportion was 0.013287%.

District's proportionate share of CERS net pension liability	\$	934,692
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For the year ended December 31, 2020, the District recognized pension expense of \$97,379. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$	23,865	\$	3,949
Changes of assumptions		94,601		-
Net difference between projected and actual earnings on pension plan investments		17,942		33,010
Changes in proportion and differences between District contributions and proportionate share of contributions		625		10,906
District contributions subsequent to the measurement date		<u>73,057</u>		<u>-</u>
	\$	<u>210,090</u>	\$	<u>47,865</u>

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

The \$73,057 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	Year Ended June 30,
2021	\$ 57,712
2022	20,820
2023	9,568
2024	1,068
	\$ 89,168

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2019, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
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% average
Investment Rate of Return	7.5%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

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

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined 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.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	35.0%	5.85%
Combined Fixed Income	24.0%	6.69%
Global Bond	4.0%	3.00%
Real Return (Diversified Inflation Strategies)	10.0%	7.00%
Real Estate	5.0%	9.00%
Absolute Return (Diversified Hedge Funds)	10.0%	5.00%
Private Equity	10.0%	6.50%
Cash Equivalent	<u>2.0%</u>	1.50%
	<u>100.0%</u>	

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 contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	1,169,034	934,692	739,369

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At December 31, 2020, there are no payables to CERS.

NOTE 6 – ACCOUNTING STANDARDS STATEMENT NO. 75

Government Accounting Standards Board (GASB) Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployments Benefits Other Than OPEB’s, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

NOTE 7 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

The District’s employees participate in the CERS retirement system as described earlier. The following describes the postemployment benefits other than OPEB for CERS.

CERS – General Information about the OPEB Plans

Other Pension Benefit Programs-Employees’ Health Plan

Plan description – Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Benefits provided – Post Retirement Death Benefits – members with a least 4 years creditable service the System will pay a \$5,000 death benefit. Insurance benefits as described above.

Contributions - Requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above. Current employees pay 1% toward the insurance fund.

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of December 31, 2020 was as follows:

Total medical benefit obligation	\$ 3,567,946,559
Net position available for benefits at actuarial value	<u>(2,523,278,929)</u>
Unfunded medical benefit obligation	<u>\$ 1,044,697,630</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2020, the District reported a liability of \$223,481 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2020, the District's proportion was .013287 percent.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of net OPEB liability	\$ 223,481
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>-</u>
	<u>\$ 223,481</u>

For the year ended December 31, 2020, the District recognized OPEB income of \$308. At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$	67,429
Changes of assumptions	66,130		442
Net difference between projected and actual earnings on pension plan investments	1,472		11,398
Changes in proportion and differences between District contributions and proportionate share of contributions	-		7,560
District contributions subsequent to the measurement date	<u>9,022</u>		<u>-</u>
	<u>\$ 76,624</u>	\$	<u>86,829</u>

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

The \$9,022 (includes \$4,799 Implicit Subsidy) reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District’s OPEB expense as follows:

		<u>Year Ended June 30,</u>
2021	\$	(3,401)
2022		(3,401)
2023		(245)
2024		(6,286)
2025		(5,061)
Thereafter		<u>(833)</u>
		<u>\$ (19,227)</u>

Implicit Employer Subsidy- The fully-insured premiums KRS pays for the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

*Changes of Benefit Terms-*None

*Changes of Assumptions-*There have been no changes in actuarial assumption since June 30, 2017.

*Actuarial Methods and Assumptions—*The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2019. Future contributions from plan members and employers will be made with the Board’s current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and actuarial assumptions adopted by the Board.

The following table presents the net OPEB liability of the District, calculated using the discount rate of 5.85%, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.68%	5.68%	6.68%
District's proportionate share of net OPEB liability	299,373	223,481	160,952

Sensitivity of the District’s proportionate share of net OPEB liability to changes in the discount rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 5.85%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	166,204	223,481	292,937

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERS financial report.

Southern Madison Water District
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2020

NOTE 8 - Cafeteria plan

Effective October 1, 1995, the District adopted a cafeteria plan in accordance with Section 125 of the U.S. Internal Revenue Code. The plan allows eligible employees to reduce their taxable compensation by allocating an amount from each pay period to pay health insurance premiums. Total employer contributions to the plan in 2020 were \$37,226. The District pays for the cost of a single person plan and any additional coverage is paid by the employee through contributions to the plan.

NOTE 9 – Risk and Uncertainty

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance coverage.

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the District, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact on the District's operations and finances.

NOTE 10 – Commitments

The District has no commitments outstanding as of December 31, 2020.

NOTE 11 - Litigation

The District has no pending or threatened litigation involving amounts exceeding \$10,000 individually or in the aggregate as of December 31, 2020.

NOTE 12 – Subsequent events

The District has evaluated subsequent events through December 1, 2021, the date the financial statements were available to be issued.

SOUTHERN MADISON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended December 31, 2020

	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:						
Districts' proportion of the net pension liability	0.01329%	0.01331%	0.01377%	0.01405%	0.01428%	0.01618%
District's proportionate share of the net pension liability	\$ 934,692	\$ 810,741	\$ 806,235	\$ 691,663	\$ 613,826	\$ 594,000
State's proportionate share of the net pension liability associated with the District	-	-	-	-	-	-
Total	<u>\$ 934,692</u>	<u>\$ 810,741</u>	<u>\$ 806,235</u>	<u>\$ 691,663</u>	<u>\$ 613,826</u>	<u>\$ 594,000</u>
District's covered-employee payroll	\$ 350,976	\$ 346,820	\$ 331,688	\$ 339,395	\$ 350,444	\$ 346,960
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	266.31%	233.76%	243.07%	203.79%	168.97%	171.20%
Plan fiduciary net position as a percentage of the total pension liability	50.54%	53.54%	53.30%	59.00%	59.97%	66.80%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

SOUTHERN MADISON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS-PENSION
 For the Year Ended December 31, 2020

COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 73,057	\$ 72,976	\$ 67,498	\$ 61,892	\$ 58,243	\$ 60,810
Contributions in relation to the contractually	<u>73,057</u>	<u>72,976</u>	<u>67,498</u>	<u>61,892</u>	<u>58,243</u>	<u>60,810</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 336,673	\$ 350,976	\$ 346,820	\$ 331,688	\$ 339,395	\$ 350,444
District's proportionate share of the required contributions	21.70%	20.79%	19.46%	18.66%	17.16%	17.35%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

SOUTHERN MADISON WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
For the Year Ended December 31, 2020

(1) CHANGES OF BENEFITS

There were no changes of benefit terms.

(2) CHANGES OF ASSUMPTIONS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- The assumed investment rate of return decreased to 6.25%.
- The assumed rate of inflation decreased to 2.30%.
- The Salary Increase changed to 3.30% to 11.55%.
- Phase-In provision added.

(3) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The Board of Trustees uses this actuarial valuation to certify the employer contribution rates for CERS for the fiscal year beginning July 1, 2019 and ending June 30, 2020. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

(4) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

SOUTHERN MADISON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended December 31, 2020

	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
HEALTH INSURANCE PLAN			
District's proportion of the collective net OPEB liability (asset)	0.0132870%	0.01331%	0.01377%
District's proportionate share of the collective net OPEB liability (asset)	\$ 223,481	\$ 236,352	\$ 276,905
State's proportionate share of the collective net OPEB liability (asset) associated with the District	-	-	-
Total	<u>\$ 223,481</u>	<u>\$ 236,352</u>	<u>\$ 276,905</u>
District's covered-employee payroll	\$ 350,976	\$ 346,820	\$ 331,688
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	63.67%	68.15%	83.48%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	13.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

SOUTHERN MADISON WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN COUNTY EMPLOYEE RETIREMENT SYSTEM

Year Ended December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN			
Contractually required contribution	\$ 9,022	\$ 7,460	\$ 6,556
Contributions in relation to the contractually			
	<u>9,022</u>	<u>7,460</u>	<u>6,556</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 336,673	\$ 350,976	\$ 346,820
District's contributions as a percentage of it's covered-employee payroll	2.68%	2.13%	1.89%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

SOUTHERN MADISON WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 For the year ended December 31, 2020

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

(2) CHANGES OF ASSUMPTIONS

- Amortization period decreased to 26.
- Payroll growth rate decreased to 2.00%
- Investment return rate decreased to 6.25%.
- Inflation rate decreased to 2.30%.
- Salary increase changed to 3.30 – 11.55%.
- Health care trend rates Pre-65 changed to having an initial trend rate of 7.25% decreasing to 4.05% over 13 years.
- Health care trend rates Post-65 changed to having an initial trend rate of 5.10% decreasing to 4.05% over 11 years.
- Health care trend rates phase in provision was added.

(3) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	26 years, closed
Asset Valuation Method	20% of difference between the market value of assets and the expected actuarial value of assets.
Price Inflation	2.30%
Salary Increase	3.30 - 11.55%, varies by service
Investment Return	6.25%
Payroll Growth	2.00%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.25% and gradually decreasing To an ultimate trend rate of 4.05% over period of 13 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.10% and gradually decreasing To an ultimate trend rate of 4.05% over period of 11 years.
Healthcare Trend Rates (Phase-In)	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

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

To the Board of Commissioners of the Southern Madison Water District
Berea, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type (enterprise fund) of the Southern Madison Water District (District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 1, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item *2020-001* that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2020-001.

We noted certain matters that we reported to management of the Southern Madison Water District in a separate letter dated December 1, 2021.

District's Response to Findings

Southern Madison Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
December 1, 2021

SOUTHERN MADISON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2020

SECTION I – SUMMARY OF AUDITORS’ RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, was any significant deficiencies material (GAGAS)?	Yes
Was any material noncompliance reported (GAGAS)?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

Internal Control and Compliance - Material Weakness

Finding Number 2020 – 001: Material Current Period Adjustments in the Aggregate

- Condition: As a result of current year auditing procedures, material adjustments in the aggregate were required to be made to the year-end client prepared financial statements for them to be in accordance with generally accepted accounting principles. Therefore, reporting requirements to the Public Service Commission (PSC) and the Department for Local Government (DLG) were late.
- Criteria: Internal controls should be in place to ensure the year-end client prepared financial statements are reported in accordance with generally accepted accounting principles and subsequently required annual reports and the audit are submitted to the timely to the PSC and DLG.
- Cause: There were no internal controls procedures in place when the new accounting software was implemented and the lack of adequate employee knowledge and training was not provided to ensure the client prepared financial statements were reported in accordance with generally accepted accounting principles and submitted to the PSC and DLG.
- Effect: The client prepared financial statements were materially misstated and the annual report and/or audit submissions were reported late and therefore they are not in compliance with the PSC and DLG.
- Recommendation: The District’s organizational objective makes it necessary to provide auditors with accurate financial statements in accordance with generally accepted accounting principles. Adequate knowledge and training of new accounting software for responsible employee(s) is recommended to prevent the problem from happening in future years.

SOUTHERN MADISON WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2020

View of Responsible Official and Planned Corrective Action: We have a new bookkeeper now he has an accounting degree and experience working in financing. We have also been working with our software company getting more training as we need it. I believe this will help us out to get everything as should be. We are getting more accurate financial information on all our accounts and reports. All reports should be filed on time with the PSC and DLG from now on.

SOUTHERN MADISON WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2020

There were no prior year findings.