

# **SOUTHERN MADISON WATER DISTRICT**

## **AUDITED FINANCIAL STATEMENTS**

December 31, 2021

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  
Richmond, Kentucky

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the business-type activities (enterprise fund) of the Southern Madison Water District (District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021, 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.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the 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 is the responsibility of management and, 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 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 August 10, 2022 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, and 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 District’s internal control over financial reporting and compliance.

***White & Associates, PSC***

White & Associates, PSC  
Richmond, Kentucky  
August 10, 2022

Southern Madison Water District  
**STATEMENT OF NET POSITION**  
December 31, 2021

	<b>2021</b>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 511,739
Certificates of deposit	71,547
Accounts receivable	163,963
Inventory	166,817
Prepaid expenses	12,541
Restricted cash and cash equivalents	16,136
Restricted certificates of deposit	283,575
Total current assets	1,226,318
Noncurrent assets:	
Certificates of deposit	186,763
Capital assets not being depreciated	70,788
Capital assets, net of accumulated depreciation	4,540,574
Other assets	2,020
Total noncurrent assets	4,800,145
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	184,556
Deferred outflows of resources related to OPEB	135,692
Total deferred outflows of resources	320,248
Total assets and deferred outflows of resources	\$ 6,346,711
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts payable	\$ 99,369
Accrued liabilities:	
Payroll taxes	11,759
Other	11,026
Interest	285
Customer deposits	214,271
Total current liabilities	336,710
Noncurrent liabilities:	
Net pension liability	992,334
Net OPEB liability	312,317
Total noncurrent liabilities	1,304,651
Deferred Inflows of Resources:	
Deferred inflow of resources related to pensions	34,546
Deferred inflow of resources related to OPEB	70,483
Total deferred inflows of resources	105,029
Total liabilities and deferred inflows of resources	1,746,390
<b>NET POSITION</b>	
Net investment in capital assets	4,611,362
Unrestricted (deficit)	(11,041)
Total net position	4,600,321
Total liabilities, deferred inflows of resources and net position	\$ 6,346,711

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, 2021

	<b>2021</b>
<b>OPERATING REVENUES:</b>	
Water sales	\$ 1,856,440
Other sales:	
Late charges	34,721
Miscellaneous	39,302
Total operating revenues	1,930,463
<b>OPERATING EXPENSES:</b>	
Salaries and wages	371,403
Employee benefits	198,606
Payroll taxes	27,338
Purchased water	1,170,193
Dues & subscription	1,840
Office expenses	78,684
Accounting & legal	33,165
Repairs & maintenance	80,438
Truck & equipment expense	24,644
Insurance	24,123
Utilities	39,098
Depreciation	215,106
Bad debt	12,677
Miscellaneous	29,968
Total operating expenses	2,307,283
<b>OPERATING INCOME (LOSS)</b>	(376,820)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Earnings on investments	7,894
Loss on retirement of capital assets	(38,748)
Miscellaneous income	1,574
Interest expense	(11)
Total nonoperating revenues (expenses)	(29,291)
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	(406,111)
Capital contributions	57,290
Total capital contributions	57,290
<b>CHANGE IN NET POSITION</b>	(348,821)
<b>NET POSITION, BEGINNING</b>	4,949,142
<b>NET POSITION, ENDING</b>	\$ 4,600,321

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, 2021

	<u>2021</u>
<b>Cash flows from operating activities:</b>	
Cash received from customers and other sources	\$ 1,922,982
Cash payments to suppliers for goods and services	(1,452,295)
Cash payments for employees and benefits	<u>(508,262)</u>
Net cash provided (used) by operating activities	<u>(37,575)</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases and construction of capital assets	(47,205)
Proceeds from capital contributions	57,290
Other cash flows	1,574
Interest expense on customer deposits	<u>(11)</u>
Net cash provided (used) by capital and related financing activities	<u>11,648</u>
<b>Cash flows from investing activities:</b>	
Interest income received	<u>7,894</u>
Net cash provided (used) by investing activities	<u>7,894</u>
Net increase (decrease) in cash and cash equivalents	(18,033)
Cash and cash equivalents, beginning of year	<u>545,908</u>
Cash and cash equivalents, end of year	\$ <u><u>527,875</u></u>
Reconciliation of total cash and cash equivalents to the statement of net position:	
Unrestricted cash and cash equivalents	511,739
Restricted cash and cash equivalents	<u>16,136</u>
Total cash and cash equivalents	\$ <u><u>527,875</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (376,820)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/Amortization	215,106
<i>(Increase) decrease in assets:</i>	
Certificates of deposit	(7,481)
Accounts receivable	(11,913)
Inventory	29,650
Prepaid expenses	(281)
Deferred outflows-pension	25,534
Deferred outflows-OPEB	(60,540)
<i>Increase (decrease) in liabilities:</i>	
Deferred inflows-pension	(13,319)
Deferred inflows-OPEB	(16,346)
Net pension liability	57,642
Net OPEB liability	88,836
Accounts payable	15,119
Accrued liabilities	7,278
Customer deposits	<u>9,960</u>
Net cash provided (used) by operating activities	\$ <u><u>(37,575)</u></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, 2021

**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, 2021, the District had 5,545 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, 2021

(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 31<sup>st</sup> 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, 2021

*(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) Other Postemployment Benefits (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, 2021

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 Statement No. 89-In June, 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement was effective for reporting periods beginning after December 15, 2019; however, GASB 95 deferred this GASB for one year beginning after December 15, 2020. There was no effect to the District's financial statements as of December 31, 2021.

The District is currently evaluating the potential impact of the following issued, but not yet effective, accounting standards.

GASB Statement No. 87-In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of the governments. This Statement was effective for reporting periods beginning after December 15, 2019; however, GASB 95 deferred this GASB for 18 months for reporting periods beginning after June 15, 2021.

GASB Statement No. 91-In May, 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by users, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement was effective for reporting periods beginning after December 15, 2020; however, GASB 95 deferred this GASB for one year for reporting periods beginning after December 15, 2021

GASB Statement No. 92-In January, 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2021.

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

**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, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position:

	Amount
Current:	
Cash and cash equivalents	\$ 511,739
Certificates of deposit	71,547
Restricted cash and cash equivalents	16,136
Restricted certificates of deposit	283,575
 Non-current:	
Certificates of deposit	186,763
Total cash, cash equivalents and certificates of deposit	\$1,069,760

Cash, cash and equivalents and certificates of deposit as of December 31, 2021 consist of the following:

	Amount
Cash and cash equivalents:	
Cash on hand	\$ 600
Deposits with financial institutions	527,275
Total cash and cash equivalents	527,875
 Certificates of deposit	541,885
Total cash, cash equivalents and certificates of deposit	\$1,069,760

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

*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, 2021, the District's deposits with financial institutions were collateralized or uncollateralized as follows:

<u>Peoples Bank</u>	<u>Bank Balance</u>		
	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ 250,000	\$ -	\$ 250,000
Securities Pledged	208,495	-	208,495
Bank balance	\$ 458,495	\$ -	\$ 458,495
<u>Central Bank &amp; Trust</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ 76,518	\$ 182,611	\$ 259,129
Securities Pledged	-	-	\$ -
Bank balance	\$ 76,518	\$ 182,611	\$ 259,129
<u>Citizens Guaranty</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ -	\$ 250,000	\$ 250,000
Uncollateralized	-	109,274	109,274
Bank balance	\$ -	\$ 359,274	\$ 359,274

**NOTE 4 – Capital assets**

Capital asset activity for the calendar year ended December 31, 2021, was as follows:

	<u>Balance at 12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2021</u>
Land	\$ 70,788	\$ -	\$ -	\$ 70,788
Capital Assets Not Being Depreciated				
Buildings	355,645	-	-	355,645
Distribution & Storage	9,059,515	44,128	(41,240)	9,062,403
Vehicles & Equipment	658,052	4,549	-	662,601
Capital Assets Being Depreciated	10,073,212	48,677	(41,240)	10,080,649
Accumulated Depreciation	(5,327,461)	(215,106)	2,492	(5,540,075)
Net Capital Assets Being Depreciated	4,745,751	(166,429)	(38,748)	4,540,574
Total Capital Assets, Net	\$ 4,816,539	\$ (166,429)	\$ (38,748)	\$ 4,611,362

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

**NOTE 5 – Pension Plan**

**County Employees Retirement System**

*Non-Hazardous*

**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 June 30, 2021, employers were required to contribute 24.06% of the member’s salary. During the year ending December 31, 2021, the District contributed \$82,449 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At December 31, 2021, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 on an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2020. The District’s proportion was 0.012938%.

**CERS**

District's proportionate share of CERS net pension liability	\$	992,334
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Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

For the year ended December 31, 2021, the District recognized pension expense of \$69,857 and reported deferred outflows of resources and deferred inflows of resources related to pensions as follows.

<b>CERS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,746	\$ -
Changes of assumptions	38,749	-
Net difference between projected and actual earnings on pension plan investments	43,014	18,182
Changes in proportion and differences between District contributions and proportionate share of contributions	364	16,364
District contributions subsequent to the measurement date	<u>77,683</u>	<u>-</u>
	<u>\$ 184,556</u>	<u>\$ 34,546</u>

The \$77,683 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, 2022.

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:

	<u>Year Ended June 30,</u>
Year 1	\$ 31,049
Year 2	20,168
Year 3	11,137
Year 4	<u>9,973</u>
	<u>\$ 72,327</u>

**Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability**

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



Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

using generally accepted accounting principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

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

**Target Asset Allocation**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the table below. The current long term inflation assumption is 2.30% per annum.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100%	3.96%
Long-Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

**Discount rate**

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

**Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions**

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
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%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

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

**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:

CERS	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 1,223,764	\$ 992,334	\$ 800,701

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

**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, 2021, there are no payables to CERS.

**NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB**

**CERS – General Information about the OPEB Plans**

**Employees' Health Plan**

**Plan description**

CERS Non-hazardous Insurance Plan is a cost-sharing multiple employer defined benefit Other Postemployment Benefits (OPEB) plan. The plan covers all regular full-time members employed in non-hazardous duty positions of the school board. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

**Benefits provided**

The Plan provides health insurance benefits to plan members.

*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.

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

At December 31, 2021, the District reported a liability of \$312,317 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020, 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 June 30, 2020, the District's proportion was .012934%.

For the year ended December 31, 2021, the District recognized OPEB expense of \$13,422. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources.

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

<b>CERS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 52,182	\$ 52,222
Changes of assumptions	54,325	330
Net difference between projected and actual earnings on pension plan investments	16,754	6,373
Changes in proportion and differences between District contributions and proportionate share of contributions	-	11,558
District contributions subsequent to the measurement date	12,431	-
	\$ 135,692	\$ 70,483

The \$12,431 (includes \$7,665 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, 2022. 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.

	<b>Year Ended June 30,</b>
Year 1	\$ 13,928
Year 2	17,000
Year 3	11,122
Year 4	11,540
Year 5	(812)
	\$ 52,778

*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 74 and 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

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

**Actuarial Methods and Assumptions to Determine the Total OPEB Liability (TOL) and the Net OPEB Liability (NOL)**

The total OPEB liability, net OPEB liability, and sensitivity information for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan’s fiscal year ending June 30, 2020, using the generally accepted actuarial principles.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.30%
Salary Increase	3.30 – 10.3%, varies by service
Investment Rate of Return	6.25%
Payroll Growth Rate	2.0%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.4% at January 1, 2022, and Gradually decreasing to an ultimate trend rate of 4.05% over period of 14 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 2.9% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over period of 14 years.
Mortality Pre-retirement	PUB-2010 General Mortality table
Mortality Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Mortality Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the “Cadillac Tax” and the “Health Insurer Fee”, which occurred in December of 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2020. Gains and losses incurring in future years will be amortized over separate 20 year amortization bases. This change does not impact the calculation of the TOL and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the Year Ended December 31, 2021

**Discount rate**

Single discount rates of 5.34% were used to measure the TOL as of June 30, 2020. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20 Year Municipal GO AA Index” as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan’s fiduciary net position on future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS’ actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS’ trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return of each major asset class are summarized in the CAFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, GRS may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 50 of GASB Statement No. 74).

The following table presents the NOL calculated using the discount rate of 5.34%, 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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate.

CERS	1% Decrease	Current Discount Rate	1% Increase
	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	\$ 401,235	\$ 312,317	\$ 239,285

**Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution**

The following actuarial assumptions were used in performing the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Southern Madison Water District  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended December 31, 2021

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.3%
Salary Increases	3.3 to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over period of 12 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over period of 10 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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

**Health Care Trend Rate Sensitivity**

The following presents the health care sensitivity rate of the District’s proportionate share of the net pension liability calculated using the discount rate of 5.34%, 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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

CERS	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 241,811	\$ 312,317	\$ 397,877

**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, 2021

**NOTE 7 - 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 2021 were \$49,869. 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 8 – 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 9 – Commitments**

The District has no commitments outstanding as of December 31, 2021.

**NOTE 10 - Litigation**

The District has no pending or threatened litigation involving amounts exceeding \$10,000 individually or in the aggregate as of December 31, 2021.

**NOTE 11 – Subsequent events**

The District has evaluated subsequent events through August 10, 2022, 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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (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)
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>							
Districts' proportion of the net pension liability	0.01294%	0.01329%	0.01331%	0.01377%	0.01405%	0.01428%	0.01618%
District's proportionate share of the net pension liability	\$ 992,334	\$ 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>\$ 992,334</u>	<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	\$ 336,673	\$ 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	294.75%	266.31%	233.76%	243.07%	203.79%	168.97%	171.20%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	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, 2021

<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 77,683	\$ 73,057	\$ 72,976	\$ 67,498	\$ 61,892	\$ 58,243	\$ 60,810
Contributions in relation to the contractually	<u>77,683</u>	<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>	<u>-</u>
District's covered-employee payroll	\$ 323,785	\$ 336,673	\$ 350,976	\$ 346,820	\$ 331,688	\$ 339,395	\$ 350,444
District's proportionate share of the required contributions	23.99%	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.

See the accompanying notes to the required supplementary information.

SOUTHERN MADISON WATER DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSIONS**  
For the Year Ended December 31, 2021

**Changes of Benefit Terms**

None.

**Changes of assumptions**

None.

**Actuarial Methods and Assumptions**

Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate the contribution rates are as follows.

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
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%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
<b>HEALTH INSURANCE PLAN</b>				
District's proportion of the collective net OPEB liability (asset)	0.012934%	0.0132870%	0.01331%	0.01377%
District's proportionate share of the collective net OPEB liability (asset)	\$ 312,317	\$ 223,481	\$ 236,352	\$ 276,905
State's proportionate share of the collective net OPEB liability (asset) associated with the District	-	-	-	-
Total	<u>\$ 312,317</u>	<u>\$ 223,481</u>	<u>\$ 236,352</u>	<u>\$ 276,905</u>
District's covered-employee payroll	\$ 336,673	\$ 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	92.77%	63.67%	68.15%	83.48%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>HEALTH INSURANCE PLAN</b>				
Contractually required contribution	\$ 12,431	\$ 9,022	\$ 7,460	\$ 6,556
Contributions in relation to the contractually				
	<u>12,431</u>	<u>9,022</u>	<u>7,460</u>	<u>6,556</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 323,785	\$ 336,673	\$ 350,976	\$ 346,820
District's contributions as a percentage of it's covered-employee payroll	3.84%	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, 2021

**Employees' Health Plan**

**Changes of Benefit Terms**

None.

**Changes of Assumptions**

The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 75 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

**Actuarial Methods and Assumptions**

The actuarially determined contribution rates effective for fiscal year ending 2020 are calculated based on the June 30, 2018 valuation report. The actuarial methods and assumptions used to calculate these contribution rates are as follow.

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.3%
Salary Increases	3.3 to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over period of 12 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over period of 10 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 10, 2022.

**Report on 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 were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2021-001 that we consider to be a material weakness.

**Report on 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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2021-001.

### **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.

We noted certain matters that we reported to management of the Southern Madison Water District in a separate letter dated August 10, 2022.

### **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  
August 10, 2022



SOUTHERN MADISON WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2021

**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 2021 – 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, 2021

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, 2021

*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.

**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.

**Current Status:** The recommendation has been adopted as of August 10, 2022 and this was a repeat finding in the current fiscal year.