

SOUTHERN MADISON WATER DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Southern Madison Water District
Berea, Kentucky 40403

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the business-type activity of the Southern Madison Water District (hereinafter called the "District"), as of and for the year ended December 31, 2023, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the District, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 qualified audit opinion.

Matter Giving Rise to the Qualified Opinion

Management did not accurately record inventory balances for parts and supplies used in maintenance of the water system. Insufficient inventory records were unavailable and we were not able to observe inventory or perform appropriate audit tests at the end of the year. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary for the affected accounts.

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 Responsibilities 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 opinion. 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

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

Accounting principles generally accepted in the United States of America require that the pension schedules and OPEB schedules and their related notes as listed on 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2024, 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 the District's internal control over financial reporting and compliance.

SK LEE CPAs, P.S.C.

Berea, Kentucky
March 20, 2024

SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets

Cash and cash equivalents	\$ 419,937
Certificates of deposit	487,228
Accounts receivable, net	194,488
Inventory	63,267
Prepaid expenses	14,833
Cash and cash equivalents-restricted	8,571
Total Current Assets	<u>1,188,324</u>

Non-Current Assets

Land and construction in process	63,302
Capital assets, net of accumulated depreciation of \$5,983,931	4,164,596
Other assets	2,020
Total Non-Current Assets	<u>4,229,918</u>

TOTAL ASSETS	<u>5,418,242</u>
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Deferred Outflows of Resources

Deferred amounts related to pension	71,243
Deferred amounts related to OPEB	75,963
Total Deferred Outflows of Resources	<u>147,206</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,565,448</u>
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities

Accounts payable	\$ 104,900
Accrued liabilities	43,967
Customer deposits	312,201
Total Current Liabilities	<u>461,068</u>

Non-Current Liabilities

Net pension liability	791,143
Net OPEB liability	215,942
Total Non-Current Liabilities	<u>1,007,085</u>

TOTAL LIABILITIES	<u>1,468,153</u>
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Deferred Inflows of Resources

Deferred amounts related to pension	93,693
Deferred amounts related to OPEB	114,477
Total Deferred Inflows of Resources	<u>208,170</u>

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>1,676,323</u>
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Net Position

Net investment in capital assets	4,227,898
Unrestricted	(338,773)
Total Net Position	<u>3,889,125</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 5,565,448</u>
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The accompanying notes are an integral part of these financial statements.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

OPERATING REVENUES	
Water sales	\$ 2,291,373
Other revenues	
Late charges	39,355
Miscellaneous	47,200
	<u>2,377,928</u>
TOTAL OPERATING REVENUES	2,377,928
 OPERATING EXPENSES	
Personnel costs	420,243
Purchased water	1,245,536
Materials, parts and supplies	513,805
Depreciation	225,565
Repairs and maintenance	91,320
Office expense	54,905
Utilities	42,899
Truck & equipment expense	36,980
Insurance	26,462
Professional fees	23,638
Commissioners fees	14,400
Dues and subscription	8,775
Bad debt	4,497
Miscellaneous	1,063
	<u>2,710,089</u>
TOTAL OPERATING EXPENSES	2,710,089
OPERATING LOSS	(332,161)
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	19,723
Interest expense	(6)
	<u>19,717</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	19,717
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(312,444)
 CAPITAL CONTRIBUTIONS	
Tap fees	158,205
	<u>158,205</u>
TOTAL CAPITAL CONTRIBUTIONS	158,205
CHANGE IN NET POSITION	(154,239)
NET POSITION AT BEGINNING OF YEAR	4,043,366
NET POSITION AT END OF YEAR	\$ 3,889,125

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

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 2,460,487
Cash received from other sources	86,555
Cash payments to suppliers for goods and services	(2,164,447)
Cash payments to employees	(400,077)
	<u>(17,482)</u>

NET CASH USED IN OPERATING ACTIVITIES (17,482)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital expenditures	(60,393)
Tap fees received	158,205
	<u>97,812</u>

NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES 97,812

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	19,718
	<u>19,718</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 19,718

NET INCREASE IN CASH AND CASH EQUIVALENTS 100,048

CASH AND CASH EQUIVALENTS, beginning of year 815,688

CASH AND CASH EQUIVALENTS, end of year \$ 915,736

⁽¹⁾ **Cash and cash equivalents are reflected in the Statement of Net Position as follows:**

Cash and cash equivalents	\$ 419,937
Certificate of deposits	487,228
Restricted cash and cash equivalents	8,571
Subtotal	<u><u>\$ 915,736</u></u>

Reconciliation of Operating Loss to Net Cash

Used In Operating Activities:

Operating loss	\$ (332,161)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	225,565
Change in assets and liabilities	
Accounts receivable	84,734
Inventory	63,092
Prepaid expenses	(3,450)
Deferred outflows of resources	57,308
Accounts payable	(26,376)
Accrued liabilities	11,383
Customer deposits	84,380
Net Pension and OPEB liability	(47,707)
Deferred inflows of resources	(134,250)
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (17,482)</u></u>

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

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting and reporting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Organization and Activities

Southern Madison Water District (hereinafter known as the "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, 2023, the District had 5,797 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.

Reporting Entity

Southern Madison Water District's financial statements include the operations of all entities for which the Board of Commissioners exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing District, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Reporting Standards. All potential component units were considered for inclusion in the financial statements under the criteria set forth under GASB 61, and as of December 31, 2023, there were no component units.

Measurement Focus and Basis of Accounting

For financial reporting purposes, the District reports its operations on an enterprise fund basis. Enterprise funds (a proprietary fund type) are accounted for on a flow of economic resources measurement focus. This measurement focus provides that all assets and liabilities associated with operations are included on the Statement of Net Position. The accrual basis of accounting is utilized by the District for financial reporting. Under the accrual basis of accounting, income is recorded when earned and expenses are recorded at the time liabilities are incurred. The Statements of Revenues, Expenses, and Changes in Net Position present increases (income) and decreases (expenses) in District's net position.

Financial Statement Presentation

Generally accepted accounting principles for state and local governments requires that resources be classified for accounting and reporting purposes into the following three net position categories:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – resources whose use by the District is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or that expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

Unrestricted – resources that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the District's Board or may otherwise be limited by contractual agreements with outside parties.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Deposits consist of checking accounts and certificates of deposit and are stated at fair value. Deposits are fully collateralized or vested in securities of the United States government and are identified specifically in the name of the District. For purposes of the Statement of Cash Flows, the District considers all highly liquid cash deposits and cash equivalents with a maturity of three months or less when purchased and non-negotiable certificates of deposit to be cash equivalents. There were no non-cash investing, capital, and financing activities during the year.

Accounts Receivable and Allowance for Doubtful Accounts

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.

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.

Prepaid Expenses

Prepaid expenses represent payments made to vendors for services that will benefit beyond December 31, 2023.

Capital Assets

Capital Assets, includes land purchased, donated, transferred, easements, buildings, improvements, equipment, customer list, and construction in process are reported in the Statement of Net Position. Purchased property and equipment are recorded at historical costs or at estimated historical costs based upon appraisals or on other acceptable methods when historical costs are not available. Donated capital assets are stated at their fair market values as of the date of the donation. Transferred capital assets are stated at the transferor's carrying value at the date of the transfer. The District capitalizes all buildings, building improvements, and equipment that costs more than \$500 or more with useful lives longer than one year. The cost of normal maintenance and repairs that do not add to the value of capital assets or materially extend capital assets estimated useful life are expensed in the fiscal year incurred. Accumulated depreciation is reported as a reduction of depreciable capital assets. Depreciation is computed using the straight-line method based on estimated lives of 20-50 years for buildings, 5-20 years for equipment, and 10-25 years for improvements and customer list.

<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

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.

Net Investment and 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.

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.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation leave. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the District and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the District and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Operating and Non-Operating Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations, primarily the provision of services related to the sewer services. Operating revenues include services charges and related fees for the provision of sanitary sewer service as well as miscellaneous fees interconnected to the District's ongoing operations. Operating expenses include all necessary costs related to the performance and administration of the District's ongoing activities as well as depreciation expense on the District's capital assets.

Non-Operating Revenues and Expenses

Non-operating revenues and expenses include interest income and interest expense. Non-exchange transactions, in which the District receives value without giving equal value in exchange, comprise developer contributions.

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.

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 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.

Restricted Assets

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.

Use of Estimates

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

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 2 – DEPOSITS

Deposits, both restricted and unrestricted consists of the following at December 31, 2023:

Description	Restricted	Total
Operating Account #1817		\$ 61,719
Deposit Account #4131	✓	8,571
Construction Account #6777		36,383
Equipment Account #1951		77,261
Credit Card #8521		68,698
Revenue #2803		86,552
Water Loss Reduction Surcharge		89,125
Petty Cash		200
Total		\$ 428,508

Description	Interest Rate	Maturity Date	Total
CD - Park Community	4.00%	10/27/2024	487,228
Total			\$ 487,228

Custodial Credit Risk is the risk that the District's deposits may not be returned in the event of depository institution failure. The District is required to maintain its deposits with a depository institution insured by Federal Deposit Insurance Corporation (FDIC) or by securities pledged at market in the District's name. Deposits at the bank are insured by the FDIC insurance of \$250,000 for time and savings accounts and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). At December 31, 2023, the carrying amount of the District's deposits and certificates of deposit was \$815,088 and the bank balances were \$915,541. The bank balances were covered by FDIC insurance in the amount of \$250,000. The remaining uninsured balances in the amount of \$291,321 were collateralized by securities pledged at market in the District's name.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables as of the year ending December 31, 2023, including applicable allowances for doubtful accounts are as follows:

Trade	\$ 193,392
Interest	1,096
Gross receivables	194,488
Less: allowance for doubtful accounts	-
Net total receivables	\$ 194,488

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 4 – CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2023:

	Beginning Balance 12/31/2022	Increases	Decreases	Ending Balance 12/31/2023
Capital assets, not being depreciated:				
Land	\$ 63,302	\$ -	\$ -	\$ 63,302
Total capital assets, not being depreciated:	63,302	-	-	63,302
Capital assets, being depreciated:				
Buildings	393,511	10,300	-	403,811
Distribution & Storage	8,882,326	6,363	-	8,888,689
Vehicles	428,756	33,700	-	462,456
Equipment	383,541	10,030	-	393,571
Total capital assets, being depreciated:	10,088,134	60,393	-	10,148,527
Less: Total accumulated depreciation	5,758,366	225,565	-	5,983,931
Total capital assets, being depreciated, net	4,329,768			4,164,596
Capital assets, net	\$ 4,393,070			\$ 4,227,898

Depreciation expense of \$225,565 was incurred during the year.

NOTE 5 – PENSION PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, District, and school board, and any additional eligible local agencies electing to participate in the system. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2023, participating employers contributed 26.79% (non-hazardous effective June 30, 2022) and 23.34% (non-hazardous effective June 30, 2023) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 5 – PENSION PLAN – CONTINUED

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous job classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation.

The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each member's account is credited with a 4% employer pay credit for non-hazardous members. The employer pay credit represents a portion of the employer contribution. The District contributed \$62,922 or 100% of the required contribution for non-hazardous job classifications, to the same pension trust.

Benefits – CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years of service or 65 years old At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years of service and 65 years or age 57+ sum of service years plus age equal 87 At least 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2023 the District reported a liability of \$791,143 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportionate share was .011 percent for non-hazardous.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 5 – PENSION PLAN – CONTINUED

For the year ended December 31, 2023, the District recognized pension expenses of \$10,253 and reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual results	\$ 846	\$ 7,045
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	20,282	-
Changes in proportion and difference between the District contributions and proportionate share of contributions	-	86,648
The District's contributions subsequent to the measurement date	50,115	-
Total	\$ 71,243	\$ 93,693

The \$45,558 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2023	\$ (49,395)
2024	(38,996)
2025	(6,648)
2026	22,474
2027	-
Thereafter	-

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability – For financial reporting, the actuarial valuation as of June 30, 2022, 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 of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2022:

Non-Hazardous	
Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service
Investment rate of return	6.25%

Mortality rates were based on the 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 MP-2014 Mortality Improvement Scale using a base year of 2019.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 5 – PENSION PLAN – CONTINUED

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2023

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Discount Rate – The projection of cash flows used to determine the discount rate of 6.25% for Non-Hazardous and Hazardous 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.

Sensitivity of the District's Proportionate Share of the 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 new 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:

	<u>Discount Rate</u>	<u>District's Proportionate Share of Net Pension Liability</u>	
1% Decrease	5.25%	\$	988,831
Current discount rate	6.25%	\$	791,143
1% Increase	7.25%	\$	627,639

Payable to the Pension Plan – At December 31, 2023, the District reported a payable of \$12,771 for the outstanding amount of contributions to the pension and OPEB plans.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

Plan Description – Employees of the District are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under the Kentucky revised Statute Section 61.645. The KRS board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

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

Contributions – Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The District has contractually required contribution rate for the year ended December 31, 2022, was 4.17% (non-hazardous effective June 30, 2022) and 3.39% (non-hazardous effective June 30, 2023) of covered payroll. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). For the year ended December 31, 2022, the District contributed \$10,410, or 100% of the required contribution for non-hazardous job classifications.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2023 the District reported a liability of \$215,942 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The District's proportion of 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 entities, actuarially determined. The District's proportionate share at June 30, 2022, was .001 percent for non-hazardous.

For the year ended December 31, 2023, the District recognized OPEB expenses of \$21,200, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual results	\$ 21,736	\$ 49,520
Implicit subsidy	7,786	-
Changes of assumptions	34,153	28,142
Net difference between projected and actual earnings on plan investments	8,765	-
Changes in proportion and difference between District contributions and proportionate share of contributions	-	36,815
The District's contributions subsequent to the measurement date	3,523	-
Total	\$ 75,963	\$ 114,477

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB – CONTINUED

The \$8,081 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2023	\$ (11,934)
2024	(11,410)
2025	(21,374)
2026	(5,104)
2027	-
Thereafter	-

Actuarial Assumptions – The total OPEB liability reported at June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-Hazardous

Inflation	2.30%	
Payroll growth rate	2.00%	
Salary increase	3.30% to 10.30%, varies by service	
Investment rate of return	6.25%	
Healthcare Trend Rates		
Pre - 65		Initial trend starting at 6.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65		Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

Mortality rates were based on the 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 2019. 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 MP-2014 Mortality Improvement Scale using a base year of 2019.

The actuarial assumption used in the June 30, 2022, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2023.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB – CONTINUED

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Expected Real Return	100.00%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.20% and for non-hazardous. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index’s “20- Year Municipal GO AA Index” as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan’s fiduciary net position and 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 is not currently being included in the calculation of the System’s actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.20%) or one percentage point higher (6.20%) follows:

	<u>Discount Rate</u>	<u>District’s Proportionate Share of Net OPEB Liability</u>
1% Decrease	4.20%	\$ 288,680
Current discount rate	5.20%	\$ 215,942
1% Increase	6.20%	\$ 155,812

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2023**

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB – CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.20%) or one percentage point higher (6.20%) than current healthcare cost trend rates follows:

Districts's Net OPEB Liability		
Healthcare Cost		
Trend Rate - 1%	Trend Rate	Trend Rate + 1%
4.20%	5.20%	6.20%
\$ 160,548	\$ 215,942	\$ 282,459

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

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 2023 were \$43,646. 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 – RISKS, COMMITMENTS, AND LITIGATION

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.

The District has no commitments outstanding as of December 31, 2023.

The District has no pending or threatened litigation involving amounts exceeding \$10,000 individually or in the aggregate as of December 31, 2023.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

Prior period adjustment consisted of the value of accounts receivable that was inadvertently omitted in the prior year.

NOTE 10 –SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 20, 2024, which is the date the financial statements were available to be issued.

SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST NINE FISCAL YEARS

	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of the net pension liability	0.01618%	0.01428%	0.01405%	0.01377%	0.01331%	0.01329%	0.01294%	0.01272%	0.01094%
District's proportionate share of the net pension liability	\$594,000	\$613,826	\$691,663	\$806,235	\$810,741	\$934,692	\$992,334	\$811,255	\$791,143
District's covered-employee payroll	\$346,960	\$350,444	\$339,395	\$331,688	\$346,820	\$350,976	\$336,673	\$272,840	\$214,452
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	171.20%	175.16%	203.79%	243.07%	233.76%	266.31%	294.75%	297.34%	368.91%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%

Note: The above schedules will present 10 years of historical data, once available.

SOUTHERN MADISON WATER DISTRICT
 BERA, KENTUCKY
 SCHEDULE OF PENSION CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM
 LAST NINE FISCAL YEARS

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required contribution	\$ 13,027	\$ 13,027	\$ 15,198	\$ 16,619	\$ 14,831	\$ 13,928	\$ 15,507	\$ 62,922	\$ 50,115
Contributions in relation to the contractually required contribution	13,027	13,027	15,198	16,619	14,831	13,928	15,507	62,922	50,115
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 346,960	\$ 350,444	\$ 339,395	\$ 331,688	\$ 346,820	\$ 350,976	\$ 336,673	\$ 272,840	\$ 214,452
Contributions as a percentage of covered-employee pay	3.75%	3.72%	4.48%	5.01%	4.28%	3.97%	4.61%	23.06%	23.37%

Note: The above schedules will present 10 years of historical data, once available.

SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST SIX FISCAL YEARS

	2018	2019	2020	2021	2022	2023
Contractually required contribution	\$ 6,556	\$ 7,460	\$ 9,022	\$ 12,431	\$ 10,410	\$ 3,523
Contributions in relation to the contractually required contribution	6,556	7,460	9,022	12,431	10,410	3,523
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$331,688	\$346,820	\$350,976	\$336,673	\$272,840	\$214,452
Contributions as a percentage of covered-employee payroll	1.98%	2.15%	2.57%	3.69%	3.82%	1.64%

Note: The above schedules will present 10 years of historical data, once available.

SOUTHERN MADISON WATER DISTRICT
 BEREA, KENTUCKY
 SCHEDULE OF OPEB CONTRIBUTIONS
 COUNTY EMPLOYEES' RETIREMENT SYSTEM
 LAST SIX FISCAL YEARS

	2018	2019	2020	2021	2022	2023
Contractually required contribution	\$ 6,556	\$ 7,460	\$ 9,022	\$ 12,431	\$ 10,410	\$ 3,523
Contributions in relation to the contractually required contribution	6,556	7,460	9,022	12,431	10,410	3,523
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$331,688	\$346,820	\$350,976	\$336,673	\$272,840	\$214,452
Contributions as a percentage of covered-employee payroll	1.98%	2.15%	2.57%	3.69%	3.82%	1.64%

Note: The above schedules will present 10 years of historical data, once available.

**SOUTHERN MADISON WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023**

NOTE 1 – CERS

General Information

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The Authority's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the Authority's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

June 30, 2022 – Pension and OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The single discount rate increased from 5.20% to 5.70% for non-hazardous and from 5.30% to 5.05% for hazardous. The municipal bond rate increased from 1.92% to 3.39%

June 30, 2021 – Pension and OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous. The municipal bond rate decreased from 3.13% to 1.92%

June 30, 2020 – Pension and OPEB Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

**SOUTHERN MADISON WATER DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED
DECEMBER 31, 2023**

NOTE 1 – CERS – CONTINUED

Changes of Assumptions- Continued

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

June 30, 2017 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for both pension and OPEB:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

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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
Southern Madison Water District
Berea, Kentucky 40403

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 activity of the Southern Madison Water District (hereinafter called the "District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2024.

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 did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002, 2023-003, and 2023-004 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SK LEE CPAs, P.S.C.

Berea, Kentucky
March 20, 2024

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

MATERIAL WEAKNESS

2023 - 001 Financial Statement Preparation

Condition:

A key component of internal control is to ensure that personnel, management, or others within the District have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria:

During our audit procedures, we noted some instances of this objective not being completely achieved.

Cause:

Management did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:

Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The ability to recognize and implement new authoritative guidance in regards to financial reporting is outside the scope of management. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial statements.

Views of Responsible Officials:

Management agrees with the recommendation.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023**

MATERIAL WEAKNESS

2023 - 002 Lack of Segregation of Duties

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we noted a lack of segregation of duties which enabled one individual access to authorize transactions, custody of assets, recording and reporting of the District's daily transactions in the financial statements.

Criteria:

Segregation of duties is a control in which no person should be given the responsibility to perform more than one related function of an accounting process.

Cause:

Due to the small number of administrative and clerical employees at the District, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties.

Effect:

The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:

The lack of segregation of duties is a common deficiency in Districts the size of Southern Madison Water District. The Board of Commissioners should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Views of Responsible Officials:

Management agrees with the recommendation.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023**

MATERIAL WEAKNESS

2023 - 003 Material Audit 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.

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 timely to the PSC and DLG.

Cause:

There were no internal control procedures in place to reconcile financial statement amounts to source documents on a monthly basis. Certain financial statement amounts were not reconciled properly which caused material audit adjustments to the financial statements.

Effect:

The client prepared financial statements were materially misstated.

Recommendation:

Management should compare bank reconciliations, accounts receivables, customer deposits, accounts payable documents, etc. to their monthly financial statements.

View of Responsible Official and Planned Corrective Action:

Management agrees with the recommendation.

**SOUTHERN MADISON WATER DISTRICT
BEREA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023**

MATERIAL WEAKNESS

2023 - 004 Inventory

Condition:

Detailed inventory records which list the number of items and cost for each item were insufficient.

Criteria:

Detailed inventory records should be prepared periodically and adjusted on the financial statements and should be available for review by the auditor.

Cause:

Inventory records were insufficient.

Effect:

Inventory is overstated in the financial statements.

Recommendation:

Management should implement internal controls that require inventory counts be performed which would detail the number of items and cost for each item.

Views of Responsible Officials:

Management agrees with the recommendation.