

MADISON COUNTY UTILITIES DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2020

Prepared by:

White & Associates PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone 859.624.3926
Fax 859.625.0227

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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 Madison County Utilities District
Richmond, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (enterprise fund) of the Madison County Utilities District (District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities (enterprise fund) of the District, as of December 31, 2020, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of the District's proportionate share of the net pension and OPEB liability, and schedules of contributions information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
March 27, 2021

Madison County Utilities District
STATEMENT OF NET POSITION
 December 31, 2020

	2020
ASSETS	
Current assets	
Cash and cash equivalents	14,238
Certificate of deposit	583,402
Accounts receivable	554,531
Inventory	205,030
Prepaid expenses	30,242
Restricted cash and cash equivalents	543,050
Restricted certificate of deposit	55,893
Total current assets	2,120,051
Noncurrent assets	
Restricted cash and cash equivalents	439,838
Restricted investments	44,895
Capital assets not being depreciated	1,048,902
Capital assets, net of accumulated depreciation	15,000,340
Total noncurrent assets	1,548,075
Deferred outflows of resources	
Deferred outflows of resources related to OP&B	14,008
Deferred outflows of resources related to pension	428,135
Total deferred outflows of resources	5,143
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	3,678,269
LIABILITIES	
Current liabilities	
Accounts payable	489,421
Accrued liabilities	
Payroll taxes	22,810
Other	15,138
Interest	15,314
Customer deposits, payable from restricted assets	89,013
Long-term debt	
M&A Loans, due within one year, payable from restricted assets	313,230
Bonds payable, due within one year and payable from restricted assets net of unamortized premium	320,000
Total current liabilities	1,255,009
Noncurrent liabilities	
Net OP&B liability	391,845
Net pension liability	1,038,910
Compensated absences	12,002
Long-term debt, due beyond one year net of unamortized premium	2,003,500
Total noncurrent liabilities	4,821,984
Deferred inflows of resources	
Deferred inflows related to OP&B	148,042
Deferred inflows related to pension	80,491
Total deferred inflows of resources	228,533
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	6,305,526
NET POSITION	
Net investment in capital assets	13,428,429
Restricted for	
Future projects	13,001
Capital improvements	130,390
Debt service	1,202,538
Unrestricted Deficit	83,013
Total net position	14,009,111
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	6,305,526

The accompanying notes are an integral part of these financial statements

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

	2020
OPERATING REVENUES	
Water sales	4,833,323
Other sales	
Late charges	11,989
Billing	101,292
Other	9,152
Miscellaneous	5,012
Total operating revenues	5,021,418
OPERATING EXPENSES	
Water	
Bad debt	1,414
Commissions	18,000
Contractual	111,149
Fees	9,080
Office	100,381
Professional development	500
Supplies	3,998
Taxes & license	11,443
Travel	1,531
Salaries and wages	130,111
Employee benefits	419,154
Payroll taxes	51,121
Purchased water	2,101,121
Professional services	13,400
Repairs & maintenance	18,508
Truck & equipment expense	42,111
Insurance	39,341
Utilities	52,142
Depreciation	554,893
Miscellaneous	1,102
Total operating expenses	4,925,553
OPERATING INCOME (LOSS)	95,865
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	11,811
Gain on investments	43,832
Interest expense	(1,011)
Gain (loss) on disposal of capital assets	(9,931)
Total nonoperating revenues (expenses)	(8,353)
INCOME (LOSS) BEFORE CONTRIBUTIONS	15,512
CONTRIBUTIONS	
Capital contributions	318,102
Total contributions	318,102
CHANGE IN NET POSITION	394,113
NET POSITION, BEGINNING	13,14,998
NET POSITION, ENDING	14,009,111

The accompanying notes are an integral part of these financial statements

Madison County Utilities District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020

	2020
Cash flows from operating activities:	
Cash received from customers and other sources	5,021,418
Cash payments to suppliers for goods and services	(3,080,403)
Cash payments for employees and benefits	(1,150,511)
Net cash provided (used) in operating activities	83,314
Cash flows from capital and related financing activities:	
Proceeds from line of credit	110,000
Proceeds from capital contributions	38,002
Purchases and construction of capital assets	(530,021)
Principal payments on long-term debt	(14,124)
Payments on line of credit	(10,000)
Interest paid	(1,000)
Net cash provided (used) in capital and related financing activities	(83,309)
Cash flows from investing activities:	
Interest and dividends	1,811
Net cash provided (used) in investing activities	1,811
Net increase (decrease) in cash and cash equivalents	(3,133)
Cash and cash equivalents, beginning of year	1,108,5
Cash and cash equivalents, end of year	1,130,32
Reconciliation of total cash and cash equivalents to the statement of net position	
Unrestricted	14,238
Restricted - current	543,5
Restricted - noncurrent	439,838
Total cash and cash equivalents	1,130,32
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	95,815
Adjustments to reconcile operating income (loss) to net cash provided (used) in operating activities	
Depreciation & amortization	554,893
(Increase) decrease in assets:	
Accounts receivable	(15,811)
Inventory	(209)
Deferred outflows - pension	35,835
Deferred outflows - OP&B	(29,08)
Prepaid expenses	(3,403)
Increase (decrease) in liabilities:	
Deferred inflows - pension	(25,40)
Deferred inflows - OP&B	(95)
Net pension liability	190,818
Net OP&B liability	(30,215)
Accounts payable	140,031
Accrued liabilities	1,195
Customer deposits	(3,249)
Compensated absences	23,239
Net cash provided (used) in operating activities	83,314

The accompanying notes are an integral part of these financial statements

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

NOTE 1 – Reporting entity and significant accounting policies

(a) Description of the reporting entity

Madison County Utilities District (District) was formed in 1997 by the merger of the Kingston-Terrill, Waco, and White Hall water districts. The purpose of the District is to provide potable drinking water to residents and businesses in Madison County. As of December 31, 2020, the District had 11,408 customers. The District is overseen by a board of commissioners appointed by the County Judge/Executive, with the approval of the Madison County Fiscal Court. The District is self-supporting through the charges it makes for water sold. The Madison County 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 water regulations issued by the Division of Water. The District purchases treated water, ready for distribution, from Richmond Utilities.

(b) Basis of accounting

The District operates and reports as a proprietary fund type (enterprise fund) 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 fund is charges to customers for services. Operating expenses for the enterprise fund includes 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.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

(d) *Restricted cash, cash equivalents and investments*

Restricted cash, cash equivalents and investments represent amounts held in trust at financial institutions and a brokerage division of a financial institution and are set aside for debt payments, reserve, capital improvements and future projects as required by the bond ordinance, other loan agreements and grants.

(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*

Non-brokered certificates of deposit with a financial institution are reported at amortized cost, which approximates fair value.

(g) *Investments*

The District's investments in brokered certificates of deposit are reported at fair value and its money market funds are reported at net asset value per share (which approximates fair value). Unrealized gains and losses are reported as an element of Investment Earnings in the statement of activities and as of December 31, 2020 the unrealized gain was \$43,832.

(h) *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.

(i) *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.

(j) *Prepaid expenses*

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the Year Ended December 31, 2020

(k) 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. The District's capitalization threshold for capital assets is \$2,500.

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

(l) 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.

(m) Compensated absences

Regular employees of the District earn vacation and sick leave days per year. Vacation days are accrued up to a maximum of 240 hours or 30 days and payable upon termination or retirement. Sick leave days are accrued up to a maximum of 960 hours or 120 days and payable upon retirement/death.

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation balance since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16, a liability is record for unused sick leave balances only to the extent that it is probable that the unused balances will result in retirement/ death payments. This is estimated by including in the liability the unused balances of employees who are expected to become eligible to receive retirement/death benefits as a result of continuing their employment with the District.

Upon termination or retirement for vacation or retirement/death for sick leave, employees are entitled to receive compensation at their current base salary for all unused vacation and sick leave.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

(n) Long-term debt

In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums or discounts. Bond issuance costs are reported as an expense of the current period. Refunding of debt may result in deferred gains or losses and are reported as deferred inflows or outflows of resources. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using the straight-line method.

(o) 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.

(p) 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.

(q) Revenues

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for goods and services provided. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(r) 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.

(s) 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.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

(t) Postemployment Benefits Other Than OPEBs (OPEB)

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

(u) Recently Issued Standards

The District has implemented the following new accounting pronouncements:

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the District's fiscal year ending December 31, 2020. The objective of the Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. Additional information to be disclosed in the notes includes unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The adoption of GASB Statement 88 did not have an impact on the district's financial position or results of operations.

GASB issued Statement No. 95, *Postponement of the Effective dates of Certain Authoritative Guidance*, effective for the District's fiscal year ending June 30, 2020.

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

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

GASB issued Statement No. 84, *Fiduciary Activities*, effective for the District's fiscal year ending June 30, 2021.

GASB issued Statement No. 87, *Leases*, effective for the District's fiscal year ending June 30, 2022.

GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the District's fiscal year ending June 30, 2022.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for the District's fiscal year ending June 30, 2021.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for the District’s fiscal year ending June 30, 2023.

GASB issued Statement No. 92, *Omnibus 2020*, effective for the District’s fiscal year ending June 30, 2022.

GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the District’s fiscal year ending June 30, 2022.

GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the District’s fiscal year ending June 30, 2023.

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 SPGE’s for the Kentucky Department of Local Government.

NOTE 3 – Cash, cash equivalents, certificates of deposit and investments

Cash, cash equivalents, certificates of deposit and investments as of December 31, 2020 are classified in the accompanying Statement of Net Position as follows:

Unrestricted cash and cash equivalents	\$	147,238
Certificate of deposit		583,462
Restricted cash and cash equivalents - current		543,656
Restricted certificate of deposit - current		55,893
Restricted cash and cash equivalents - noncurrent		439,838
Restricted investments - noncurrent		464,895
		464,895
	\$	2,234,982

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

Cash on hand	\$	902
Deposits with financial institutions		1,129,830
Certificate of deposit (non-brokered)		639,355
Investments (brokered certificates of deposit)		464,895
Total	\$	2,234,982

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

Custodial risk

Custodial risk for deposits 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.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of a another party. The District’s investments (money market and brokered certificate of deposit) were uninsured and uncollateralized beyond FDIC in the amount of \$214,722.

Fair Value Measurements

For investments, the District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 - inputs are quoted prices in active markets for identical assets

Level 2 - inputs reflect prices that are based on a similar observable assets either directly or indirectly, which may include inputs in a market that are not considered to be active

Level 3 - inputs reflect prices based upon unobservable sources.

As of December 31, 2020, the District’s recurring fair value measurement of their money market funds and brokered certificate of deposit investments are valued using Level 1.

Investments	Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	10 or More
Brokered certificate of deposit - Goldman Sachs	A3	44,721		44,721	
Total		44,721		44,721	
Money market funds - Fidelity Bank	PR	14			
Total Investments		44,895			

Interest rate risk

The District does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

In accordance with the District’s investment policy, the District may invest in the following:

- Certificates of Deposit
- Guaranteed Investment Contracts
- U.S. Treasury Obligations

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. 99.9% of the District's investments are invested in a non-brokered certificate of deposit.

Risks and uncertainties

The District invests in various certificates of deposit. Brokered certificates of deposit are exposed to various risks such as interest rate, credit and market risks. Due to the level of risk associated with certain brokered certificates of deposit, it is at least reasonably possible that changes in the values of brokered certificates of deposit will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

NOTE 4 - Restricted cash, cash equivalents, certificate of deposit and investments

Restricted cash, cash equivalents, certificate of deposit, and investments were set aside for the following purposes as of December 31, 2020

Customer Deposits	\$	87,587
Bond and Interest Sinking Fund		367,805
KIA Repairs/Maintenance Reserve Account		439,838
Restricted Depreciation Reserve Account		130,396
Restricted for Future Projects		13,761
Restricted Debt Service Reserve Account		464,895
Restricted assets	\$	<u>1,504,282</u>

NOTE 5 – Capital assets

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

	<u>Balance 12/31/2019</u>		<u>Additions</u>		<u>Deletions</u>		<u>Balance 12/31/2020</u>
Land	\$ 378,061	\$	-	\$	-	\$	378,061
Construction in progress	753,713		271,250		(354,062)		670,901
Capital assets not being depreciated	1,131,774		271,250		(354,062)		1,048,962
Buildings	735,742		-		-		735,742
Water system	25,416,174		598,972		(391,719)		25,623,427
Vehicles and equipment	318,758		1,878		-		320,635
	26,470,673		600,850		(391,719)		26,679,804
Accumulated depreciation	(10,770,352)		(554,893)		321,788		(11,003,457)
Capital assets, net of accumulated depreciation	15,700,321		45,957		(69,931)		15,676,347
Total capital assets	\$ 16,832,095	\$	317,207	\$	(423,993)	\$	<u>16,725,310</u>

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

NOTE 6 – Long-term debt

Series 2008 Refunding Revenue Bonds

Refunding bonds were dated May 1, 2008 in the amount of \$3,600,000 and were used to retire or defease the Utility District Refunding Revenue Bonds, Series 1997 and interim financing for the Series 2008 project. The bonds are due in February and August of each year until they mature in February 1, 2022. The interest is a variable rate increasing annually per Bond Agreement from 2.30% to 4.25%. A bond premium is being amortized over the life of the bonds using the straight-line method and as of December 31, 2020 the premium balance was \$8,116. The Series 2008 Bonds pursuant to the General Bond Resolution are secured by and payable solely from the pledged receipts derived from the collection of rates, rentals and charges for the services rendered by the District's system.

The bonds require the District, under the resolution of the waterworks revenue bond issue, to maintain certain restricted cash accounts. The resolution provides for all revenue received to be deposited on a timely basis, in a water revenue cash account with transfers being made to the following accounts:

Operations and Maintenance Accounts – monthly transfers of a sum sufficient to meet the current expenses of operating and maintaining the system. The balance in this fund shall not exceed an amount required to cover anticipated expenditures for a two-month period pursuant to the annual budget.

Restricted Bond and Interest Sinking Accounts – monthly transfers of a sum equal to one-sixth (or larger as necessary) of the next succeeding interest installment and one-twelfth (or larger as necessary) of the next principal installment and is recorded as restricted cash. Cash is currently restricted in the amount of \$367,805 as of December 31, 2020.

Restricted Reserve Account – the debt service reserve account was fully funded with the Series 2008 Refunding Revenue Bonds and is recorded as restricted investments. The maximum restricted reserve requirement is \$344,025. Cash is currently restricted in the amount of \$464,895 as of December 31, 2020.

Restricted Excess Funds – there shall be transferred within sixty days after the end of each calendar year, the balance of excess funds in the Revenue Account to the Restricted Depreciation Reserve Account for the purpose of paying the cost of extensions, additions and/or improvements to the project and is recorded as restricted cash. The maximum restricted depreciation reserve is \$123,500. Cash is currently restricted in the amount of \$130,396 as of December 31, 2020.

The District is in compliance with all covenants of the Bond Agreement.

Kentucky Infrastructure Authority (KIA) Loans

The District holds various assistance agreements with the KIA maturing June 1, 2025 through June 1, 2035 with interest rates between 1% - 3%. Each KIA loan is required to maintain a Maintenance and Replacement Reserve account in which it will deposit an amount equal to the amount set forth in the Project Specifics at the times set for in the Project Specifics. Amounts in the Maintenance and

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project. The maximum restricted reserve is \$429,280. Cash is currently restricted in the amount of \$439,838 as of December 31, 2020. The KIA loans pursuant to the loan agreements are secured by and payable solely from the pledged receipts derived from the collection of rates, rentals and charges for the services rendered by the District's system.

The District is in compliance with all covenants of the KIA Assistance Agreements.

Line of Credit

The District has a line of credit arrangement with 1st Trust Bank for borrowing up to \$300,000. The promissory note bears interest at 3.500% which matured as of December 20, 2020. The loan is secured by the certificate of deposit held by the District at 1st Trust Bank. The line of credit was utilized during the year in order to negate cash flow issues due to timing disparities between collections of bills and payments for purchased water.

A summary of long-term liabilities of the District as of December 31, 2020 is as follows:

		Maturity	Beginning			Ending	Due in	Due Beyond
		Date	Balance	Additions	Deletions	Balance	One Year	One Year
			12/31/2019			12/31/2020		
KIA Loan F02-07	1%	6/1/25	\$ 974,067	\$ -	\$ 173,151	\$ 800,916	\$ 174,887	\$ 626,028
KIA Loan F07-06	1%	12/1/29	580,042	-	55,435	524,607	55,991	468,616
KIA Loan F13-023	3%	6/1/35	702,399	-	36,900	665,499	37,922	627,577
KIA Loan F10-04	2%	12/1/33	696,304	-	43,561	652,743	44,436	608,307
Series 2008 Bonds	2.30-4.25%	2/1/22	945,000	-	300,000	645,000	315,000	330,000
Accrued Premium			13,192	-	5,076	8,116	5,076	3,040
Line of Credit	1%	12/20/19	-	110,000	110,000	-	-	-
			<u>3,911,004</u>	<u>110,000</u>	<u>724,124</u>	<u>3,296,880</u>	<u>633,313</u>	<u>2,663,567</u>
Net Pension Liability			1,448,092	190,818	-	1,638,910	-	1,638,910
Net OPEB Liability			422,120	-	30,275	391,845	-	391,845
Compensated Absences			104,423	23,239	-	127,662	-	127,662
			<u>\$ 5,885,639</u>	<u>\$ 324,057</u>	<u>\$ 754,399</u>	<u>\$ 5,455,297</u>	<u>\$ 633,313</u>	<u>\$ 4,821,984</u>

Debt service requirements to maturity for long-term debt:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

Year End December 31	Principal	Interest	Total
2021	\$ 628,237	\$ 64,275	\$ 692,511
2022	647,495	53,324	700,818
2023	321,823	34,970	356,792
2024	326,222	30,570	356,792
2025	239,465	26,097	265,562
2026-2030	724,206	86,357	810,563
2031-2035	401,318	22,332	423,650
	<u>\$ 3,288,765</u>	<u>\$ 317,925</u>	<u>\$ 3,606,690</u>

NOTE 7 – Pension Plan

County Employees Retirement System

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

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

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

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2020, employers were required to contribute 24.06% of the member’s salary. During the year ending June 30, 2020, the District contributed \$150,993 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS-Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

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

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2019 was determined using standard roll-forward techniques. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2019. At June 30, 2020, the District’s proportion was 0.023303%.

District's proportionate share of CERS net pension liability	\$	1,638,910
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For the year ended June 30, 2020, the District recognized pension expense of \$201,246. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 41,846	\$ 6,925
Changes of assumptions	165,876	
Net difference between projected and actual earnings on pension plan investments	31,461	57,881
Changes in proportion and differences between District contributions and proportionate share of contributions	37,959	15,685
District contributions subsequent to the measurement date	150,993	
	\$ 428,135	\$ 80,491

The \$150,993 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 June 30, 2020.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
2021	\$ 136,303
2022	44,497
2023	13,979
2024	<u>1,872</u>
	<u>\$ 196,651</u>

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

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

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2017:

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS’s investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
	<u>100.00%</u>	

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

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

	1% Decrease		Current Discount Rate		1% Increase
	5.25%		6.25%		7.25%
District's proportionate share of net pension liability	\$ 2,049,812	\$	1,638,910	\$	1,296,428

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 June 30, 2020, there are no payables to CERS.

NOTE 8 – ACCOUNTING STANDARDS STATEMENT NO. 75

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

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

Other Pension Benefit Programs-Employees' Health Plan

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

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

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

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2019 was as follows:

Total medical benefit obligation		\$	3,567,946,559
Net position available for benefits at actuarial value			<u>(2,523,248,929)</u>
Unfunded medical benefit obligation		\$	<u><u>1,044,697,630</u></u>

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

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

At June 30, 2020, the District reported a liability of \$391,845 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the District's proportion was .023297% (percent).

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

District's proportionate share of net OPEB liability	\$	391,845
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For the year ended June 30, 2020, the District recognized OPEB expense of \$8,073. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 118,229
Changes of assumptions	115,951	775
Net difference between projected and actual earnings on pension plan investments	2,581	19,985
Changes in proportion and differences between District contributions and proportionate share of contributions	15,986	9,053
District contributions subsequent to the measurement date	12,490	-
	\$ 147,008	\$ 148,042

The \$12,490 (includes \$8,414 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 June 30, 2020. 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:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

		<u>Year Ended June 30,</u>
2021	\$	(990)
2022		(990)
2023		4,544
2024		(6,062)
2025		(8,236)
Thereafter		<u>(1,790)</u>
	\$	<u><u>(13,524)</u></u>

Implicit Employer Subsidy- The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

*Changes of Benefit Terms-*None

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

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

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

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

Discount rate: The discount rate used to measure the total OPEB liability was 5.68%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ended, the plan’s insurance 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 plan. However, the cost associated with the implicit subsidy will not be paid out of the plan’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate 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) that applies to CERS.

The following table presents the net OPEB liability of the District, calculated using the discount rate of 5.68%, 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 (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	4.68%	5.68%	6.68%
District's proportionate share of net OPEB liability	\$ 524,911	\$ 391,845	\$ 282,207

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2020

Sensitivity of the District's proportionate share of net OPEB liability to changes in the discount rate:
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.68%, 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 (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease		Health Care Trend Rate		1% Increase
District's proportionate share of net OPEB liability	\$ 291,417	\$	391,845	\$	513,626

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

NOTE 10 - Cafeteria plan

The District maintains a cafeteria plan in accordance with Section 125 of the U.S. Internal Revenue Code (IRC). The plan allows eligible employees to reduce their taxable compensation by allocating an amount from each pay period to pay health insurance premiums. Total employer contributions to the plan in 2020 were \$86,769. The District pays for the cost of a single person plan. Any additional coverage is paid by the employee through contributions to the plan.

NOTE 11 – Risk management

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.

NOTE 12 – Commitments

The District has commitments for construction projects in progress in the amount of \$860,473 as of December 31, 2020. Related capital contributions are to be received to reimburse for these costs by the State of Kentucky.

NOTE 13 - Litigation

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

NOTE 14 – Subsequent events

The District has evaluated subsequent events through March 27, 2021 the date the financial statements were available to be issued.

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

	Reporting Fiscal Year Measure Date 2020 2019	Reporting Fiscal Year Measure Date 2019 2018	Reporting Fiscal Year Measure Date 2018 2017	Reporting Fiscal Year Measure Date 2017 2016	Reporting Fiscal Year Measure Date 2016 2015	Reporting Fiscal Year Measure Date 2015 2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:						
District's proportion of the net pension liability	0.02330	0.0238	0.0222	0.02114	0.02045	0.01982
District's proportionate share of the net pension liability	1,38,910	1,448,092	1,302,94	1,040,88	89,114	998,520
State's proportionate share of the net pension liability associated with the District						
Total	1,38,910	1,448,092	1,302,94	1,040,88	89,114	998,520
District's covered employee payroll	10,520	592,244	58,95	520,285	49,311	45,934
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	28.44	244.51	229.11	200.0	189	218.53
Plan fiduciary net position as a percentage of the total pension liability	50.54	53.54	53.30	59.00	59.9	80

Note: Schedule is intended to show information for the last 10 calendar years. Additional years will be displayed as the records are available.

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

COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	150,993	131,015	119,804	105,000	93,005	80,304
Contributions in relation to the contractually required contribution	<u>150,993</u>	<u>131,015</u>	<u>119,804</u>	<u>105,000</u>	<u>93,005</u>	<u>80,304</u>
Contribution deficiency/excess	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
District's covered employee payroll	31,540	10,520	592,244	508,095	520,285	490,311
District's proportionate share of the required contributions as a percentage of its covered employee payroll	23.91%	21.50%	20.24%	18.58%	10.88%	10.30%

Note: Schedule is intended to show information for the last 10 calendar years. Additional years will be displayed as the records are available.

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

(1) CHANGES OF BENEFITS

There were no changes of benefit terms.

(2) CHANGES OF ASSUMPTIONS

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

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

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

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

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

(4) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

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

	Reporting Fiscal Year Measurement Date 2020 2019	Reporting Fiscal Year Measurement Date 2019 2018	Reporting Fiscal Year Measurement Date 2018 2017
HEALTH INSURANCE PLAN			
District's proportion of the collective net OPEB liability/asset	0.02330	0.0238	0.0222
District's proportionate share of the collective net OPEB liability/asset	391,845	422,120	44,502
State's proportionate share of the collective net OPEB liability/asset associated with the District	-	-	-
Total	391,845	422,120	44,502
District's covered employee payroll	10,520	592,244	58,195
District's proportionate share of the collective net OPEB liability/asset as a percentage of its covered employee payroll	4.18	1.2	8.9
Plan fiduciary net position as a percentage of the total OPEB liability	0.44	5.2	13.00

Note: Schedule is intended to show information for the last 10 calendar 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.

MADISON COUNTY UTILITIES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN COUNTY
EMPLOYEE RETIREMENT SYSTEM
Year Ended December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN			
Contractually required contribution	12,490	13,393	11,103
Contributions in relation to the contractually			
	<u>12,490</u>	<u>13,393</u>	<u>11,103</u>
Contribution deficiency/excess	<u>0</u>	<u>0</u>	<u>0</u>
Districts covered employee payroll	31,540	10,520	592,244
Districts contributions as a percentage of its covered employee payroll	1.98%	2.19%	1.80%

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

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

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

(2) CHANGES OF ASSUMPTIONS

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

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

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

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

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

White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

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

To the Board of Commissioners of the Madison County Utilities District
Richmond, 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 Madison County Utilities District (District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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
March 27, 2021

**MADISON COUNTY UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2020**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported N/A
Was any material noncompliance reported (GAGAS)?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

MADISON COUNTY UTILITIES DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2020

No prior year audit findings.