

MADISON COUNTY UTILITIES DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2021

Prepared by:

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White & Associates, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the Madison County Utilities District
Richmond, Kentucky

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities (enterprise fund) of the District, as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

Required Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District’s internal control over financial reporting and compliance.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
April 22, 2022

Madison County Utilities District
STATEMENT OF NET POSITION
December 31, 2021

	2021
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 176,014
Certificate of deposit	589,638
Accounts receivable	567,119
Inventory	162,856
Prepaid expenses	29,692
Restricted cash and cash equivalents	1,053,816
Restricted certificate of deposit	53,885
Total current assets	2,633,020
Noncurrent assets:	
Restricted cash and cash equivalents	444,141
Capital assets not being depreciated	1,007,429
Capital assets, net of accumulated depreciation	16,162,951
Total noncurrent assets	17,614,521
Deferred outflows of resources:	
Deferred outflows of resources related to OPEB	271,706
Deferred outflows of resources related to pension	387,801
Total deferred outflows of resources	659,507
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,907,048
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 512,573
Accrued liabilities:	
Payroll taxes	33,569
Other	17,168
Interest	9,619
Customer deposits, payable from restricted assets	80,176
Long-term debt:	
KIA Loans, due within one year, payable from restricted assets	317,495
Bonds payable, due within one year and payable from restricted assets (net of unamortized premium)	333,040
Total current liabilities	1,303,640
Noncurrent liabilities:	
Net OPEB liability	578,320
Net pension liability	1,837,482
Compensated absences	123,105
Long-term debt, due beyond one year (net of unamortized premium)	2,013,033
Total noncurrent liabilities	4,551,940
Deferred inflows of resources:	
Deferred inflows related to OPEB	116,375
Deferred inflows related to pension	42,817
Total deferred inflows of resources	159,192
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	6,014,772
NET POSITION	
Net investment in capital assets	14,506,812
Restricted for:	
Future projects	3,191
Customer deposits liability	78,077
Capital improvements	163,992
Debt service	1,306,582
Unrestricted (Deficit)	(1,166,378)
Total net position	14,892,276
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 20,907,048

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, 2021

	2021
OPERATING REVENUES	
Water sales	\$ 4,878,315
Other sales:	
Late charges	76,578
Billing	124,979
Other	29,071
Miscellaneous	65,640
Total operating revenues	5,174,583
OPERATING EXPENSES	
Water	
Bad debt	37,775
Commissioners	18,000
Contractual	55,390
Fees	7,070
Office	105,810
Professional development	1,713
Supplies	3,480
Taxes & license	10,661
Travel	2,230
Salaries and wages	629,358
Employee benefits	498,176
Payroll taxes	57,816
Purchased water	2,806,513
Professional services	69,103
Repairs & maintenance	41,611
Truck & equipment expense	47,598
Insurance	42,910
Utilities	60,553
Depreciation	544,252
Miscellaneous	5,432
Total operating expenses	5,045,451
OPERATING INCOME (LOSS)	129,132
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	42,439
Sale of assets	6,000
Interest expense	(53,903)
Gain (loss) on disposal of capital assets	(10,448)
Total nonoperating revenues (expenses)	(15,912)
INCOME (LOSS) BEFORE CONTRIBUTIONS	113,220
CONTRIBUTIONS	
Capital contributions	769,945
Total contributions	769,945
CHANGE IN NET POSITION	883,165
NET POSITION, BEGINNING	14,009,111
NET POSITION, ENDING	\$ 14,892,276

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, 2021

	2021
Cash flows from operating activities:	
Cash received from customers and other sources	\$ 5,174,583
Cash payments to suppliers for goods and services	(3,264,905)
Cash payments for employees and benefits	(958,565)
Net cash provided (used) by operating activities	951,114
Cash flows from capital and related financing activities:	
Proceeds from line of credit	90,000
Proceeds from capital contributions	769,945
Purchases and construction of capital assets	(999,771)
Principal payments on long-term debt	(633,313)
Payments on line of credit	(90,000)
Interest paid	(53,903)
Net cash provided (used) by capital and related financing activities	(917,042)
Cash flows from investing activities:	
Interest on certificate of deposit	2,033
Sale of investments	464,895
Interest on cash and cash equivalents	42,239
Net cash provided (used) by investing activities	509,167
Net increase (decrease) in cash and cash equivalents	543,239
Cash and cash equivalents, beginning of year	1,130,732
Cash and cash equivalents, end of year	\$ 1,673,971
Reconciliation of total cash and cash equivalents to the statement of net position:	
Unrestricted	\$ 176,014
Restricted - current	1,053,816
Restricted - noncurrent	444,141
Total cash and cash equivalents	\$ 1,673,971
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 129,132
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/Amortization	544,252
<i>(Increase) decrease in assets:</i>	
Accounts receivable	(12,588)
Inventory	42,174
Deferred outflows-pension	40,334
Deferred outflows-OPEB	(124,698)
Prepaid expenses	550
<i>Increase (decrease) in liabilities:</i>	
Deferred inflows-pension	(37,674)
Deferred inflows-OPEB	(31,667)
Net pension liability	198,572
Net OPEB liability	186,475
Accounts payable	23,152
Accrued liabilities	7,094
Customer deposits	(9,437)
Compensated absences	(4,557)
Net cash provided (used) by operating activities	\$ 951,114

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, 2021

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, 2021, the District had 11,561 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, 2021

(d) *Restricted cash and cash equivalents*

Restricted cash and cash equivalents represent amounts held in trust at financial institutions 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) *Accounts receivable*

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

(h) *Inventory*

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

(i) *Prepaid expenses*

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

(j) *Capital assets*

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the Year Ended December 31, 2021

<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

(k) Customer deposits

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

(l) 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.

(m) 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.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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-

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

(t) *Recently Issued Standards*

The District has implemented the following new accounting pronouncements:

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

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

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

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

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

NOTE 2 – Budgetary data

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

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

Cash, cash equivalents, certificates of deposit and investments as of December 31, 2021 are classified in the accompanying Statement of Net Position as follows:

Unrestricted cash and cash equivalents	\$	176,014
Certificate of deposit		589,638
Restricted cash and cash equivalents - current		1,053,816
Restricted certificate of deposit		53,885
Restricted cash and cash equivalents - noncurrent		444,141
	\$	<u>2,317,494</u>

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

Cash on hand	\$	911
Deposits with financial institutions		1,673,060
Certificate of deposit (non-brokered)		643,523
Total	\$	<u>2,317,494</u>

Custodial Risk

Custodial risk for deposits (demand deposits and non-brokered certificates of deposit) is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2021, the District's deposits with financial institutions were collateralized or uncollateralized as follows:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

		Bank Balance		
<u>KY Bank</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ 250,000	\$ -	\$ 250,000	
Securities Pledged	932,729		932,729	
Uncollateralized	-		-	
Bank balance	\$ 1,182,729	\$ -	\$ 1,182,729	
<u>Central Bank & Trust</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ 182,072	\$ -	\$ 182,072	
Uncollateralized	-		-	
Bank balance	\$ 182,072	\$ -	\$ 182,072	
<u>First Trust Bank</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ 5,393	\$ 250,000	\$ 255,393	
Securities Pledged	-	393,523	393,523	
Bank balance	\$ 5,393	\$ 643,523	\$ 648,916	
<u>Bank of New York</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>	
FDIC	\$ -	\$ -	\$ -	
Securities Pledged	-		-	
Uncollateralized	336,078		336,078	
Bank balance	\$ 336,078	\$ -	\$ 336,078	

NOTE 4 – Restrictions of cash, cash equivalents, and certificate of deposit

Restricted cash, cash equivalents and certificate of deposit, were set aside for the following purposes as of December 31, 2021

Customer Deposits	\$ 78,077
Bond and Interest Sinking Fund	518,416
Restricted for Debt Service Reserve	344,025
KIA Repairs/Maintenance Reserve Account	444,141
Restricted Depreciation Reserve Account	163,992
Restricted for Future Projects	3,191
Restricted assets	\$ 1,551,842

NOTE 5 – Capital assets

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

	<u>Balance 12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>
Land	\$ 378,061	\$ -	\$ -	\$ 378,061
Construction in progress	670,901	656,188	(697,721)	629,368
Capital assets not being depreciated	1,048,962	656,188	(697,721)	1,007,429
Buildings	735,742	-	-	735,742
Water system	25,623,427	969,517	(200,506)	26,392,438
Vehicles and equipment	320,635	71,787	-	392,422
	26,679,804	1,041,304	(200,506)	27,520,602
Accumulated depreciation	(11,003,457)	(544,252)	190,058	(11,357,651)
Capital assets, net of accumulated depreciation	15,676,347	497,052	(10,448)	16,162,951
Total capital assets	\$ 16,725,310	\$ 1,153,240	\$ (708,169)	\$ 17,170,380

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

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, 2021 the premium balance was \$3,040. 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 Series 2008 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 \$518,416 as of December 31, 2021.

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

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 required restricted depreciation reserve is \$123,500. Cash is currently restricted in the amount of \$163,992 as of December 31, 2021.

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 Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

the unbudgeted costs of replacing worn or obsolete portions of the Project. The restricted R&M reserve as of December 31, 2021, is \$444,500. Cash is currently restricted in the amount of \$444,141 as of December 31, 2021. 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 1.6500% which matured as of December 20, 2021. 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, 2021 is as follows:

		<u>Maturity Date</u>	<u>Beginning Balance 12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 12/31/2021</u>	<u>Due in One Year</u>	<u>Due Beyond One Year</u>
KIA Loan F02-07	1%	6/1/25	\$ 800,916	\$ -	\$ 174,887	\$ 626,028	\$ 176,641	\$ 449,388
KIA Loan F07-06	1%	12/1/29	524,607	-	55,991	468,616	56,552	412,063
KIA Loan F13-023	3%	6/1/35	665,499	-	37,922	627,577	38,972	588,605
KIA Loan F10-04	2%	12/1/33	652,743	-	44,436	608,307	45,330	562,977
Series 2008 Bonds	2.30-4.25%	2/1/22	645,000	-	315,000	330,000	330,000	-
Accrued Premium			8,116	-	5,076	3,040	3,040	-
Line of Credit	1%	12/20/19	-	90,000	90,000	-	-	-
			<u>3,296,880</u>	<u>90,000</u>	<u>723,312</u>	<u>2,663,568</u>	<u>650,535</u>	<u>2,013,033</u>
Net Pension Liability			1,638,910	198,572	-	1,837,482	-	1,837,482
Net OPEB Liability			391,845	186,475	-	578,320	-	578,320
Compensated Absences			127,662	-	4,557	123,105	-	123,105
			<u>\$ 5,455,297</u>	<u>\$ 475,047</u>	<u>\$ 727,869</u>	<u>\$ 5,202,475</u>	<u>\$ 650,535</u>	<u>\$ 4,551,940</u>

Debt service requirements to maturity for long-term debt:

<u>Year End December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 647,495	\$ 46,311	\$ 693,805
2023	321,823	34,970	356,792
2024	326,222	30,570	356,792
2025	239,465	26,097	265,562
2026	151,411	22,921	174,332
2027-2031	676,848	72,618	749,465
2032-2035	297,265	13,151	310,416
	<u>\$ 2,660,528</u>	<u>\$ 246,638</u>	<u>\$ 2,907,166</u>

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

NOTE 7 – Pension Plan

County Employees Retirement System

Non-Hazardous

Plan description

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

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

Benefits provided

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

Contributions

Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2021, employers were required to contribute 24.06% of the member’s salary. During the year ending December 31, 2021, the District contributed \$159,214 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At December 31, 2021, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 on an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2020. The District’s proportion was 0.023957%.

CERS

District's proportionate share of CERS net pension liability	\$	1,837,482
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MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

For the year ended December 31, 2021, the District recognized pension expense of \$201,232 and reported deferred outflows of resources and deferred inflows of resources related to pensions as follows.

CERS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 45,821	\$ -
Changes of assumptions	71,751	-
Net difference between projected and actual earnings on pension plan investments	79,649	33,668
Changes in proportion and differences between District contributions and proportionate share of contributions	40,898	9,149
District contributions subsequent to the measurement date	<u>149,682</u>	<u>-</u>
	<u>\$ 387,801</u>	<u>\$ 42,817</u>

The \$149,682 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022.

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

	<u>Year Ended June 30,</u>
Year 1	\$ 91,882
Year 2	60,672
Year 3	24,280
Year 4	<u>18,468</u>
	<u>\$ 195,302</u>

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

For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date June 30, 2019. The total pension liability was

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

rolled forward from the valuation date (June 30, 2019) to the plan’s fiscal year ending June 30, 2020, using generally accepted accounting principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

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

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

Target Asset Allocation

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

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

Discount rate

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

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

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

Sensitivity of the District’s proportionate share of net pension liability to changes in the discount rate

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

CERS	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 2,266,015	\$ 1,837,482	\$ 1,482,640

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

Pension plan fiduciary net position

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

Payables to the pension plan

At December 31, 2021, there are no payables to CERS.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

CERS – General Information about the OPEB Plans

Employees' Health Plan

Plan description

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

Benefits provided

The Plan provides health insurance benefits to plan members.

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

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

At December 31, 2021, the District reported a liability of \$578,320 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the District's proportion was .023950%.

For the year ended December 31, 2021, the District recognized OPEB expense of \$30,110. At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

CERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 96,625	\$ 96,701
Changes of assumptions	100,593	612
Net difference between projected and actual earnings on pension plan investments	31,023	11,801
Changes in proportion and differences between District contributions and proportionate share of contributions	20,090	7,261
District contributions subsequent to the measurement date	23,375	-
	\$ 271,706	\$ 116,375

The \$23,375 (includes \$14,193 Implicit Subsidy) reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows.

	Year Ended June 30,
Year 1	\$ 35,616
Year 2	41,304
Year 3	30,397
Year 4	26,468
Year 5	(1,829)
	\$ 131,956

Implicit Employer Subsidy- The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 and 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Changes of Benefit Terms

None

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the Year Ended December 31, 2021

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

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

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

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

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

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

Discount rate

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

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

The following table presents the NOL calculated using the discount rate of 5.34%, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate.

CERS	1% Decrease	Current Discount Rate	1% Increase
	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	\$ 742,971	\$ 578,320	\$ 443,086

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

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

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

Health Care Trend Rate Sensitivity

The following presents the health care sensitivity rate of the District’s proportionate share of the net pension liability calculated using the discount rate of 5.34%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

CERS	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 447,764	\$ 578,320	\$ 736,752

OPEB plan fiduciary net position

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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2021

NOTE 9 - 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 2021 were \$91,711. 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 10 – 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 11 – Commitments

The District has commitments for construction projects in progress in the amount of \$176,585 as of December 31, 2021. Related capital contributions are to be received to reimburse for these costs by the State of Kentucky.

NOTE 12 - Litigation

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

NOTE 13 – Uncertainty

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

NOTE 14 – Subsequent events

The District has evaluated subsequent events through April 22, 2022 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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:							
Districts' proportion of the net pension liability	0.023957%	0.02330%	0.02378%	0.02226%	0.02114%	0.02045%	0.01982%
District's proportionate share of the net pension liability	\$ 1,837,482	\$ 1,638,910	\$ 1,448,092	\$ 1,302,946	\$ 1,040,878	\$ 879,114	\$ 998,520
State's proportionate share of the net pension liability associated with the District	-	-	-	-	-	-	-
Total	<u>\$ 1,837,482</u>	<u>\$ 1,638,910</u>	<u>\$ 1,448,092</u>	<u>\$ 1,302,946</u>	<u>\$ 1,040,878</u>	<u>\$ 879,114</u>	<u>\$ 998,520</u>
District's covered-employee payroll	\$ 631,546	\$ 610,520	\$ 592,244	\$ 568,695	\$ 520,285	\$ 497,311	\$ 456,934
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	290.95%	268.44%	244.51%	229.11%	200.06%	168.97%	218.53%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.54%	53.54%	53.30%	59.00%	59.97%	66.80%

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

See the accompanying notes to the required supplementary information.

MADISON COUNTY UTILITIES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - PENSION
 For the Year Ended December 31, 2021

COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 149,682	\$ 150,993	\$ 131,715	\$ 119,874	\$ 105,676	\$ 93,005	\$ 86,364
Contributions in relation to the contractually required contribution	<u>149,682</u>	<u>150,993</u>	<u>131,715</u>	<u>119,874</u>	<u>105,676</u>	<u>93,005</u>	<u>86,364</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 654,185	\$ 631,546	\$ 610,520	\$ 592,244	\$ 568,695	\$ 520,285	\$ 497,311
District's proportionate share of the required contributions as a percentage of it's covered-employee payroll	22.88%	23.91%	21.57%	20.24%	18.58%	17.88%	17.37%

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

See the accompanying notes to the required supplementary information.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
For the Year Ended December 31, 2021

Changes of Benefit Terms

None.

Changes of assumptions

None.

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
HEALTH INSURANCE PLAN				
District's proportion of the collective net OPEB liability (asset)	0.023950%	0.02330%	0.02378%	0.02226%
District's proportionate share of the collective net OPEB liability (asset)	\$ 578,320	\$ 391,845	\$ 422,120	\$ 447,502
State's proportionate share of the collective net OPEB liability (asset) associated with the District	-	-	-	-
Total	<u>\$ 578,320</u>	<u>\$ 391,845</u>	<u>\$ 422,120</u>	<u>\$ 447,502</u>
District's covered-employee payroll	\$ 631,546	\$ 610,520	\$ 592,244	\$ 568,695
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	91.57%	64.18%	71.27%	78.69%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	13.00%

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

MADISON COUNTY UTILITIES DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended December 31, 2021

HEALTH INSURANCE PLAN	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 23,375	\$ 12,490	\$ 13,393	\$ 11,103
Contributions in relation to the contractually	<u>23,375</u>	<u>12,490</u>	<u>13,393</u>	<u>11,103</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 654,185	\$ 631,546	\$ 610,520	\$ 592,244
District's contributions as a percentage of it's covered-employee payroll	3.57%	1.98%	2.19%	1.87%

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.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 For the year ended December 31, 2021

Employees' Health Plan

Changes of Benefit Terms

None.

Changes of Assumptions

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

Actuarial Methods and Assumptions

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

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

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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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 22, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that have not been identified.

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*.

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

April 22, 2022

**MADISON COUNTY UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2021**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? 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, 2021

No prior year audit findings.