

MADISON COUNTY UTILITIES DISTRICT

AUDITED FINANCIAL STATEMENTS

December 31, 2022

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, 2022, 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, 2022, 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.

Change in Account Principle

As described in Note 1, Recently Issued Standards, to the financial statements, in fiscal year ending 2022, the District adopted new accounting guidance, GASB No. 87, Leases. Our opinion is not modified with respect to this matter

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 March 27, 2023, 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
March 27, 2023

Madison County Utilities District
STATEMENT OF NET POSITION
December 31, 2022

	2022
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 917,919
Certificate of deposit	592,882
Accounts receivable	655,581
Inventory	221,270
Prepaid expenses	35,320
Restricted cash and cash equivalents	443,171
Restricted certificate of deposit	444,942
Total current assets	3,311,085
Noncurrent assets:	
Restricted cash and cash equivalents	48,021
Capital assets not being depreciated	414,986
Capital assets, net of accumulated depreciation	16,834,960
Total noncurrent assets	17,297,967
Deferred outflows of resources:	
Deferred outflows of resources related to OPEB	274,525
Deferred outflows of resources related to pension	331,182
Total deferred outflows of resources	605,707
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 21,214,759
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 532,746
Accrued liabilities:	
Payroll taxes	38,769
Other	18,871
Interest	3,185
Customer deposits, payable from restricted assets	62,328
Long-term debt:	
KIA Loans, due within one year, payable from restricted assets	321,823
Total current liabilities	977,722
Noncurrent liabilities:	
Net OPEB liability	473,252
Net pension liability	1,576,476
Compensated absences	120,898
Long-term debt, due beyond one year (net of unamortized premium)	1,691,210
Total noncurrent liabilities	3,861,836
Deferred inflows of resources:	
Deferred inflows related to OPEB	245,083
Deferred inflows related to pension	289,190
Total deferred inflows of resources	534,273
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,373,831
NET POSITION	
Net investment in capital assets	15,236,913
Restricted for:	
Future projects	436,861
Customer deposits liability	60,177
Debt service	439,096
Unrestricted (Deficit)	(332,119)
Total net position	15,840,928
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 21,214,759

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, 2022

	2022
OPERATING REVENUES	
Water sales	\$ 5,592,860
Other sales:	
Late charges	48,400
Billing	78,805
Other	11,714
Miscellaneous	85,198
Total operating revenues	5,816,977
OPERATING EXPENSES	
Water	
Bad debt	18,549
Commissioners	18,000
Contractual	54,457
Fees	6,481
Office	117,705
Professional development	1,200
Supplies	11,917
Taxes & license	7,719
Travel	966
Salaries and wages	677,919
Employee benefits	359,771
Payroll taxes	43,333
Purchased water	2,986,510
Professional services	67,430
Repairs & maintenance	87,540
Truck & equipment expense	73,101
Insurance	62,446
Utilities	62,649
Depreciation	557,053
Rent	25
Miscellaneous	11
Total operating expenses	5,214,782
OPERATING INCOME (LOSS)	602,195
NONOPERATING REVENUES (EXPENSES)	
Loss on investment	(995)
Insurance proceeds	49,264
Sale of assets	3,125
Interest expense	(35,902)
Gain (loss) on disposal of capital assets	(24,456)
Total nonoperating revenues (expenses)	(8,964)
INCOME (LOSS) BEFORE CONTRIBUTIONS	593,231
CONTRIBUTIONS	
Capital contributions	355,421
Total contributions	355,421
CHANGE IN NET POSITION	948,652
NET POSITION, BEGINNING	14,892,276
NET POSITION, ENDING	\$ 15,840,928

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, 2022

	2022
Cash flows from operating activities:	
Cash received from customers and other sources	\$ 5,816,977
Cash payments to suppliers for goods and services	(3,726,596)
Cash payments for employees and benefits	(1,020,423)
Net cash provided (used) by operating activities	1,069,958
Cash flows from capital and related financing activities:	
Proceeds from capital contributions	355,421
Proceeds from insurance	49,264
Purchases and construction of capital assets	(661,075)
Principal payments on long-term debt	(650,534)
Interest paid	(35,902)
Net cash provided (used) by capital and related financing activities	(942,826)
Cash flows from investing activities:	
Interest on certificate of deposit	78
Sale of investments	(391,075)
Interest on cash and cash equivalents	(995)
Net cash provided (used) by investing activities	(391,992)
Net increase (decrease) in cash and cash equivalents	(264,860)
Cash and cash equivalents, beginning of year	1,673,971
Cash and cash equivalents, end of year	\$ 1,409,111
Reconciliation of total cash and cash equivalents to the statement of net position:	
Unrestricted	\$ 917,919
Restricted - current	443,171
Restricted - noncurrent	48,021
Total cash and cash equivalents	\$ 1,409,111
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 602,195
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/Amortization	557,053
<i>(Increase) decrease in assets:</i>	
Accounts receivable	(88,642)
Inventory	(58,414)
Deferred outflows-pension	56,619
Deferred outflows-OPEB	(2,819)
Prepaid expenses	(5,628)
<i>Increase (decrease) in liabilities:</i>	
Deferred inflows-pension	246,373
Deferred inflows-OPEB	128,708
Net pension liability	(261,006)
Net OPEB liability	(105,068)
Accounts payable	20,173
Accrued liabilities	469
Customer deposits	(17,848)
Compensated absences	(2,207)
Net cash provided (used) by operating activities	\$ 1,069,958

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, 2022

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, 2022, the District had 11,693 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, 2022

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

Restricted cash, cash equivalents, and certificates of deposits represent amounts held in trust at financial institutions and investment firms 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. GASB 72 requires brokered certificates of deposit to be reported at fair market value and not amortized cost.

(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, 2022

<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, 2022

(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, 2022

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. 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 is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

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. The requirements of this statement are effective 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.

GASB Statement No. 98-In October, 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

There is no effect on current year financial statements for newly adopted accounting pronouncements.

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

GASB Statement No. 94-In March, 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 96-In May, 2020, the GASB issued Statement No. 96, *Subscription-based information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

(SBITAs) for government and users (governments). The Statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 99-In April, 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2023.

The impact of these pronouncements on the District’s financial statement has not been determined.

NOTE 2 – Budgetary data

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

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

Cash, cash equivalents, and certificates of deposit as of December 31, 2022, are classified in the accompanying Statement of Net Position as follows:

Unrestricted cash and cash equivalents	\$	917,919
Certificate of deposit		592,882
Restricted cash and cash equivalents		443,171
Restricted certificate of deposit		444,492
Restricted cash and cash equivalents - noncurrent		48,021
	\$	2,446,935

Cash, cash equivalents, and certificates of deposit as of December 31, 2022, consist of the following:

Cash on hand	\$	1,132
Deposits with financial institutions		1,407,979
Certificate of deposit (non-brokered)		646,749
Certificate of deposit (brokered)		391,075
Total	\$	2,446,935

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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, 2022, the District's deposits with financial institutions were collateralized or uncollateralized as follows:

	<u>Bank Balance</u>		
	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
<u>KY Bank</u>			
FDIC	\$ 250,000	\$ -	\$ 250,000
Securities Pledged	944,737		944,737
Uncollateralized	-		-
Bank balance	<u>\$ 1,194,737</u>	<u>\$ -</u>	<u>\$ 1,194,737</u>
<u>Central Bank & Trust</u>			
FDIC	\$ 195,567	\$ -	\$ 195,567
Uncollateralized	-		-
Bank balance	<u>\$ 195,567</u>	<u>\$ -</u>	<u>\$ 195,567</u>
<u>First Trust Bank</u>			
FDIC	\$ 5,393	\$ 250,000	\$ 255,393
Securities Pledged	-	396,748	396,748
Bank balance	<u>\$ 5,393</u>	<u>\$ 646,748</u>	<u>\$ 652,141</u>

Fair Value Measurements

For brokered certificates of deposit, 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, 2022, the District's recurring fair value measurement of their money market funds and brokered certificates of deposit are valued using Level 1.

<u>Investments</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>10 or More</u>
Brokered certificates of deposit	N/R	\$ 391,028	\$ -	\$ 391,028	\$ -
		<u>391,028</u>	<u>\$ -</u>	<u>\$ 391,028</u>	<u>\$ -</u>
Money market funds	N/R	47			
Total		<u>\$ 391,075</u>			

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the Year Ended December 31, 2022

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

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 certificates of deposit are invested in non-brokered and brokered certificates 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 – 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, 2022

Customer Deposits	\$	60,177
KIA Repairs/Maintenance Reserve Account		439,096
Restricted for Future Projects		436,861
Restricted assets	\$	936,134

NOTE 5 – Capital assets

Capital asset activity for the calendar year ended December 31, 2022 was as follows:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2022</u>
Land	\$ 378,061	\$ -	\$ -	\$ 378,061
Construction in progress	<u>629,368</u>	<u>260,542</u>	<u>(852,985)</u>	<u>36,925</u>
Capital assets not being depreciated	<u>1,007,429</u>	<u>260,542</u>	<u>(852,985)</u>	<u>414,986</u>
Buildings	735,742	-	-	735,742
Water system	26,392,438	1,209,018	(201,066)	27,400,390
Vehicles and equipment	<u>392,422</u>	<u>44,500</u>	<u>(54,480)</u>	<u>382,442</u>
	27,520,602	1,253,518	(255,546)	28,518,574
Accumulated depreciation	<u>(11,357,651)</u>	<u>(557,053)</u>	<u>231,090</u>	<u>(11,683,614)</u>
Capital assets, net of accumulated depreciation	<u>16,162,951</u>	<u>696,465</u>	<u>(24,456)</u>	<u>16,834,960</u>
Total capital assets	\$ <u><u>17,170,380</u></u>	\$ <u><u>957,007</u></u>	\$ <u><u>(877,441)</u></u>	\$ <u><u>17,249,946</u></u>

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 matured in February 2022. The interest was a variable rate increasing annually per Bond Agreement from 2.30% to 4.25%. A bond premium was being amortized over the life of the bonds using the straight-line method and as of December 31, 2022 the premium balance was paid off. The Series 2008 Bonds pursuant to the General Bond Resolution were 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. In the event of default, the holder of not less than twenty-five percent in principal amount of the outstanding bonds may proceed, in their own name, to protect and enforce the rights of the bondholders by taking legal proceedings to enforce, collect and receive water rates, rentals and charges adequate to carry out the covenants and agreements of the District, declare all bonds due and payable, and seek the appointment of a receiver who shall take charge of and administer the affairs of the District.

The bonds required the District, under the resolution of the waterworks revenue bond issue, to maintain certain restricted cash accounts which are now moved to unrestricted.

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 the unbudgeted costs of replacing worn or obsolete portions of the Project. The restricted R&M reserve as of December 31, 2022, is \$444,500. Cash is currently restricted in the amount of \$439,096 as of December 31, 2022. 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

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

rendered by the District's system. In the event of default, the non-defaulting party can declare all payments due hereunder, as set forth in the Schedule of Payments, to be immediately due and payable, take whatever action at law or in equity may appear necessary or desirable to enforce its rights under the Assistance Agreement and if the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

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

A summary of long-term liabilities of the District as of December 31, 2022 is as follows:

		Maturity Date	Beginning Balance 12/31/2021	Additions	Deletions	Ending Balance 12/31/2022	Due in One Year	Due Beyond One Year
KIA Loan F02-07	1%	6/1/25	\$ 626,028	\$ -	\$ 176,641	\$ 449,388	\$ 178,411	\$ 270,976
KIA Loan F07-06	1%	12/1/29	468,616	-	56,552	412,063	57,119	354,944
KIA Loan F13-023	3%	6/1/35	627,577	-	38,972	588,605	40,051	548,553
KIA Loan F10-04	2%	12/1/33	608,307	-	45,330	562,977	46,241	516,736
Series 2008 Bonds	2.30-4.25%	2/1/22	330,000	-	330,000	-	-	-
Accrued Premium			3,040	-	3,040	-	-	-
			<u>2,663,567</u>	<u>-</u>	<u>650,535</u>	<u>2,013,033</u>	<u>321,823</u>	<u>1,691,210</u>
Net Pension Liability			1,837,482	-	261,006	1,576,476	-	1,576,476
Net OPEB Liability			578,320	-	105,068	473,252	-	473,252
Compensated Absences			123,106	-	2,207	120,898	-	120,898
			<u>\$ 5,202,475</u>	<u>\$ -</u>	<u>\$ 1,018,817</u>	<u>\$ 4,183,659</u>	<u>\$ 321,823</u>	<u>\$ 3,861,836</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>
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	154,191	20,141	174,332
2028-2032	629,179	59,189	688,368
2033-2035	<u>190,742</u>	<u>6,439</u>	<u>197,181</u>
	<u>\$ 2,013,033</u>	<u>\$ 200,327</u>	<u>\$ 2,213,360</u>

NOTE 7 – RETIREMENT PLANS

The District's employees are provided with one pension plan. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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 and overseen by the Kentucky Public Pensions Authority (KPPA). The plan covers substantially all regular full-time members employed in non-hazardous duty positions of the school board. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

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 years ending June 30, 2022, and December 31, 2022, employers were required to contribute 26.95% and 26.79% of the member’s salary, respectively. During the year ending December 31, 2022, the District contributed \$174,506 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, 2022, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 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, 2021. The District’s proportion was 0.024726%.

CERS

District's proportionate share of CERS net pension liability \$ 1,576,476

Deferred Inflows and Outflows of Resources, and Pension Expense included in the Schedule of Pension Amounts include only certain categories of deferred outflows of resources and deferred

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of Pension Amounts does not include deferred outflow/inflows of resources for changes in the employer's proportionate share of contribution or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2021, is based on the June 30, 2020, actuarial valuation rolled forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are amortized over a closed five-year period.

For the year ended December 31, 2022, the District recognized pension expense of \$41,986 and reported deferred outflows of resources and deferred inflows of resources related to pensions as follows.

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 18,103	\$ 15,301
Changes of assumptions	21,158	-
Net difference between projected and actual earnings on pension plan investments	61,157	271,275
Changes in proportion and differences between District contributions and proportionate share of contributions	56,258	2,614
District contributions subsequent to the measurement date	<u>174,506</u>	<u>-</u>
	\$ <u>331,182</u>	\$ <u>289,190</u>

The \$174,506 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, 2023.

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:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

	<u>Year Ended June 30,</u>
Year 1	\$ 8,220
Year 2	(29,022)
Year 3	(45,914)
Year 4	<u>(65,798)</u>
	<u>\$ (132,514)</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, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information were based on an actuarial valuation date June 30, 2020. The total pension liability was rolled forward from the valuation date (June 30, 2020) to the plan’s fiscal year ending June 30, 2021, using generally accepted accounting principles. The financial reporting actuarial valuation used the following actuarial principles.

The actuarial assumptions are:

Valuation Date	June 30, 2020
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 2019. The mortality table used for disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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.

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class:		
US Equity	15.75 %	4.50 %
Non US Equity	15.75 %	5.25 %
Core Bonds	20.5 %	-0.25 %
Private Equity	7 %	5.15 %
Real Estate	5 %	5.30 %
Opportunistic	3 %	2.25 %
Real Return	15 %	3.95 %
Cash	3 %	-0.75 %

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, 2021:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, Closed
	<i>Gains/losses incurring after 2019 will be amortized over Separate Closed 20-year amortization bases</i>
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 10.30%, 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 retiree mortality is a System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the Year Ended December 31, 2022

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	\$ 2,021,906	\$ 1,576,476	\$ 1,207,894

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, 2022, there are no payables to CERS.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City’s employees participate in CERS as described earlier. The following describes the other postemployment benefits for the system.

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.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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

The District reported a liability of \$473,252 for its proportionate share of the collective net OPEB liability which is .024720%.

Deferred Inflows and Outflows of Resources, and OPEB Expense included in the Schedules of OPEB Amounts include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedules of OPEB Amounts do not include deferred outflow/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2021, is based on the June 30, 2020, actuarial valuation rolled forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are amortized over a closed five-year period. For the year ended December 31, 2022, the District recognized OPEB expense of \$20,821. 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	\$ 74,419	\$ 141,297
Changes of assumptions	125,468	440
Net difference between projected and actual earnings on pension plan investments	23,844	97,878
Changes in proportion and differences between District contributions and proportionate share of contributions	24,517	5,468
District contributions subsequent to the measurement date	26,277	-
	\$ 274,525	\$ 245,083

The \$26,277 (includes \$15,572 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, 2023. 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, 2022

	Year Ended June 30,
Year 1	\$ 18,503
Year 2	7,241
Year 3	3,271
Year 4	<u>(25,850)</u>
	<u>\$ 3,165</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 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

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRA). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation as of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using the generally accepted actuarial principles.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2021:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
 For the Year Ended December 31, 2022

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 6.30% at January 1, 2023, 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 6.30% in 2023 then Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years.
Mortality Pre-retirement ultimate	PUB-2010 General Mortality table, projected with the Rates from the MP-2014 mortality improvement scale using a
	Base year of 2010
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 single discount tables used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plan’s anticipated long-term healthcare costs.

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, 2019. 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 Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

Discount rate

Single discount rates of 5.20% were used to measure the total OPEB liability as of June 30, 2021. 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 1.92%, as reported in Fidelity Index’s “20 Year Municipal GO AA Index” as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan’s fiduciary net position 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 plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans trusts. 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 must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session.in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

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 Net OPEB Liability calculated using the discount rate of 5.20%, 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 (4.20%) or 1-percentage-point higher (6.20%) than the current rate:

CERS	1% Decrease	Current Discount Rate	1% Increase
	4.20%	5.20%	6.20%
District's proportionate share of net OPEB liability	\$ 649,771	\$ 473,252	\$ 328,389

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2021

The following actuarial assumptions were used in performing the actuarially determined contributions effective for fiscal year ending June 30, 2021:

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

Valuation Date	June 30, 2019
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 period at June 30, 2019, Gains/losses Incurring after 2019 will be amortized over separate closed 20-year amortization bases
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	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Mortality	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
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.25% at January 1, 2021, and Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.50% at January 1, 2020, and Gradually decreasing to an ultimate trend rate of 4.05% Over period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision	Board certified rate is phased into the actuarially Determined rate in accordance with HB 362 enacted in 2018.

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 5.2%, 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 (4.2%) or 1-percentage-point higher (6.2%) than the current rate:

CERS	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 340,685	\$ 473,252	\$ 633,262

MADISON COUNTY UTILITIES DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2022

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 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 2022 were \$91,021. 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 had no commitments for construction projects in progress as of December 31, 2022.

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, 2022.

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 March 27, 2023, 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, 2022

	Reporting Fiscal Year (Measurement Date) 2022 (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	0.024726%	0.023957%	0.02330%	0.02378%	0.02226%	0.02114%	0.02045%	0.01982%
District's proportionate share of the net pension liability	\$ 1,576,476	\$ 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>\$ 1,576,476</u>	<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	\$ 654,185	\$ 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	240.98%	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	57.33%	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, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:								
Contractually required contribution	\$ 174,506	\$ 149,682	\$ 150,993	\$ 131,715	\$ 119,874	\$ 105,676	\$ 93,005	\$ 86,364
Contributions in relation to the contractually required contribution	<u>174,506</u>	<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>	<u>-</u>
District's covered-employee payroll	\$ 689,523	\$ 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	25.31%	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, 2022

County Employee Retirement System (CERS)

Non-Hazardous

Changes of Benefit Terms

None.

Changes of assumptions

None.

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2020
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 10.30%, 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, 2022

	Reporting Fiscal Year (Measurement Date) 2022 (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)	0.024720%	0.023950%	0.023300%	0.02378%	0.02226%
District's proportionate share of the collective net OPEB liability (asset)	\$ 473,252	\$ 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>\$ 473,252</u>	<u>\$ 578,320</u>	<u>\$ 391,845</u>	<u>\$ 422,120</u>	<u>\$ 447,502</u>
District's covered-employee payroll	\$ 654,185	\$ 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	72.34%	91.57%	64.18%	71.27%	78.69%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	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, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN					
Contractually required contribution	\$ 26,277	\$ 23,375	\$ 12,490	\$ 13,393	\$ 11,103
Contributions in relation to the contractually					
	<u>26,277</u>	<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>	<u>-</u>
District's covered-employee payroll	\$ 689,523	\$ 654,185	\$ 631,546	\$ 610,520	\$ 592,244
District's contributions as a percentage of it's covered-employee payroll	3.81%	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, 2022

County Employee Retirement System (CERS)

Employees' Health Plan

Changes of Benefit Terms

None.

Changes of Assumptions

The single discount rates used to calculate the total OPEB liability decreased from 5.34% to 5.20%. Additional information regarding the single discount rates is provided in Section 1 of this report. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plans' anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. There were no other material assumption changes.

Actuarial Methods and Assumptions

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2021:

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 6.30% at January 1, 2023, 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 6.30% in 2023 then Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years.
Mortality Pre-retirement	PUB-2010 General Mortality table, projected with the Ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
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

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, 2022, 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, 2023.

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
March 27, 2023

MADISON COUNTY UTILITIES DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

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, 2022

No prior year audit findings.