Kentucky-American Water Company

(A wholly-owned subsidiary of American Water Works Company, Inc.)

Financial Statements

As of and for the years ended December 31, 2022 and 2021

Report of Independent Auditors

To the Board of Directors of
Kentucky-American Water Company

Opinion

We have audited the accompanying financial statements of Kentucky-American Water Company (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, changes in common stockholder's equity, and cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

PricewaterhouseCoopers LLP

April 5, 2023

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2022 and 2021
(Dollars in thousands)

	2022	2021
ASSETS		
Property, plant and equipment	$ 927,897	$ 883,951
Accumulated depreciation	(209,730)	(198,342)
Property, plant and equipment, net	718,167	685,609
Current assets:		
Cash and cash equivalents	596	475
Accounts receivable, net of allowance for uncollectible accounts of $746 and $967, respectively	7,395	5,912
Receivables - affiliated company	3,827	893
Unbilled revenues	4,933	4,568
Materials and supplies	5,045	2,006
Other	392	630
Total current assets	22,188	14,484
Regulatory and other long-term assets:		
Regulatory assets	14,546	15,938
Goodwill	576	576
Prepaid pension expense	2,875	1,892
Postretirement benefit asset	3,680	2,335
Other	118	59
Total regulatory and other long-term assets	21,795	20,800
Total assets	$ 762,150	$ 720,893

The accompanying notes are an integral part of these Financial Statements

KENTUCKY-AMERICAN WATER COMPANY
Balance Sheets
December 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stockholder's equity	$ 270,548	$ 241,234
Long-term debt, excluding current portion	211,564	234,587
Preferred stock with mandatory redemption requirements	2,250	2,250
Total capitalization	484,362	478,071
Current liabilities:		
Notes payable - affiliated company	13,863	20,364
Current portion of long-term debt	33,000	—
Accounts payable	8,716	6,823
Payables - affiliated company	451	633
Taxes accrued	9,166	8,716
Interest accrued	1,971	1,934
Advances for construction	1,247	1,351
Other current liabilities	5,308	6,522
Total current liabilities	73,722	46,343
Regulatory and other long-term liabilities:		
Advances for construction	11,588	10,706
Deferred income taxes and investment tax credits	62,231	55,750
Regulatory liabilities	48,681	49,894
Other long-term liabilities	1,964	2,025
Total regulatory and other long-term liabilities	124,464	118,375
Contributions in aid of construction	79,602	78,104
Commitments and contingencies (see Note 13)		
Total capitalization and liabilities	$ 762,150	$ 720,893

The accompanying notes are an integral part of these Financial Statements

KENTUCKY-AMERICAN WATER COMPANY
Statements of Income
December 31, 2022 and 2021
(Dollars in thousands)

	2022	2021
Operating revenues	$ 110,109	$ 103,130
Operating expenses (income):		
Operation and maintenance	40,862	38,332
Depreciation and amortization	20,857	20,518
General taxes	6,332	8,865
Total operating expenses, net	68,051	67,715
Operating income	42,058	35,415
Other income (expenses):		
Interest, net	(10,622)	(9,936)
Allowance for other funds used during construction	355	457
Allowance for borrowed funds used during construction	215	206
Non-operating benefit costs, net	2,067	2,009
Other, net	(171)	(201)
Total other expenses	(8,156)	(7,465)
Income before income taxes	33,902	27,950
Provision for income taxes	8,040	6,009
Net income	$ 25,862	$ 21,941

The accompanying notes are an integral part of these Financial Statements

KENTUCKY-AMERICAN WATER COMPANY
Statements of Cash Flows
December 31, 2022 and 2021
(Dollars in thousands)

		2022		2021
Cash flows from operating activities:				
Net income	$	25,862	$	21,941
Adjustments to reconcile to net cash flows provided by operating activities:				
Depreciation and amortization		20,857		20,518
Amortization of debt issuance costs		361		349
Deferred income taxes and amortization of investment tax credits		6,585		2,653
Provision for losses on accounts receivable		(221)		(652)
Allowance for other funds used during construction		(355)		(457)
Pension and non-pension postretirement benefits		(1,637)		(1,395)
Deferred programmed maintenance expense		—		(165)
Other, net		1,019		2,648
Changes in assets and liabilities:				
Accounts receivable and unbilled revenues		(1,496)		1,479
Pension and non-pension postretirement benefit contributions		(690)		(519)
Accounts payable		149		1,001
Receivables - affiliated company and Payables - affiliated company, net		(3,177)		(979)
Accrued interest		37		39
Accrued taxes		450		1,507
Other assets and liabilities, net		(4,400)		200
Net cash provided by operating activities		43,344		48,168
Cash flows from investing activities:				
Capital expenditures		(50,493)		(36,985)
Removal costs from property, plant and equipment retirements, net		(4,104)		(3,611)
Net cash used in investing activities		(54,597)		(40,596)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt		10,000		13,000
Net (repayments) borrowings of notes payable - affiliated company		(6,501)		(10,831)
Debt issuance costs		—		(137)
Advances and contributions, net of refunds of $904 and $1,404 in 2022 and 2021, respectively		4,523		6,192
Capital contributions by stockholder		15,000		—
Dividends paid		(11,648)		(15,800)
Net cash provided by (used in) financing activities		11,374		(7,576)
Net increase (decrease) in cash and cash equivalents		121		(4)
Cash and cash equivalents at beginning of year		475		479
Cash and cash equivalents at end of year	$	596	$	475
Cash paid during the year for:				
Interest, net of capitalized amount	$	9,819	$	9,152
Income taxes, net of refunds	$	4,856	$	3,616
Non-cash investing activity				
Capital expenditures acquired on account but unpaid as of year end	$	4,677	$	2,837

The accompanying notes are an integral part of these Financial Statements

KENTUCKY-AMERICAN WATER COMPANY
Statements of Changes in Common Stockholder's Equity
December 31, 2022 and 2021
(Dollars in thousands)

	Common Stock		Paid-in	Retained	
	Shares	Par Value	Capital	Earnings	Total
Balance at December 31, 2020	1,567,391	$ 36,569	$ 113,461	$ 85,028	$ 235,058
Net income	—	—	—	21,941	21,941
Capital contributions	—	—	35	—	35
Dividends declared	—	—	—	(15,800)	(15,800)
Balance at December 31, 2021	1,567,391	$ 36,569	$ 113,496	$ 91,169	$ 241,234
Net income	—	—	—	25,862	25,862
Capital contributions	—	—	15,100	—	15,100
Dividends declared	—	—	—	(11,648)	(11,648)
Balance at December 31, 2022	1,567,391	$ 36,569	$ 128,596	$ 105,383	$ 270,548

The accompanying notes are an integral part of these Financial Statements

KENTUCKY-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2022 and 2021
(Dollars in thousands)

Note 1: Organization and Operation

Kentucky-American Water Company (the "Company") provides water and wastewater services in the State of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Board of Public Utilities (the "Commission"). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWW").

Note 2: Significant Accounting Policies

Regulation

The Company is subject to regulation by the Commission, the Kentucky Department for Environmental Protection and the U.S. Environmental Protection Agency. As such, the Company follows authoritative accounting principles required for rate regulated utilities, which requires the effects of rate regulation to be reflected in the Company's Financial Statements. The Commission generally authorizes revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base. The Commission may also approve accounting treatments, long-term financing programs and cost of capital, operation and maintenance ("O&M") expenses, capital expenditures, taxes, affiliated transactions and relationships, reorganizations, mergers, and acquisitions, along with imposing certain penalties or granting certain incentives. Due to timing and other differences in the collection of a regulated utility's revenues, these authoritative accounting principles allow a cost that would otherwise be charged as an expense by a non-regulated entity, to be deferred as a regulatory asset if it is probable that such cost is recoverable through future rates. Conversely, these principles also require the creation of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future, or amounts collected in excess of costs incurred and are refundable to customers. See Note 3—Regulatory Matters for additional information.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires that management make estimates, assumptions and judgments that could affect the Company's financial condition, results of operations and cash flows. Actual results could differ from these estimates, assumptions and judgments. The Company considers its critical accounting estimates to include (i) the application of regulatory accounting principles and the related determination and estimation of regulatory assets and liabilities, (ii) revenue recognition and the estimates used in the calculation of unbilled revenue, (iii) accounting for income taxes, (iv) benefit plan assumptions and (v) the estimates and judgments used in determining loss contingencies. The Company's critical accounting estimates that are particularly sensitive to change in the near term are amounts reported for regulatory assets and liabilities, income taxes, benefit plan assumptions and contingency-related obligations.

Property, Plant and Equipment

Property, plant and equipment consists primarily of utility plant. Additions to utility plant and replacement of retirement units of utility plant are capitalized and include costs such as materials, direct labor, payroll taxes and benefits, indirect items such as engineering and supervision, transportation and an allowance for funds used during construction ("AFUDC"). Costs for repair, maintenance and minor replacements are charged to O&M expense as incurred.

The cost of utility plant is depreciated using the straight-line average remaining life group method. The Company records depreciation in conformity with amounts approved by the Commission after regulatory review of the information the Company submits to support its estimates of the assets' remaining useful lives.

When units of property, plant and equipment are replaced, retired or abandoned, the carrying value is credited against the asset and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs amounted to $9,098 and $9,856 as of December 31, 2022 and 2021, respectively.

Cash and Cash Equivalents

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable and Unbilled Revenues

The majority of the Company's accounts receivable is due from utility customers and represents amounts billed to the Company's customers on a monthly basis. Credit is extended based on the guidelines of the Commission and collateral is generally not required. Unbilled revenues are accrued when service has been provided but has not been billed to customers.

Allowance for Uncollectible Accounts

Allowance for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding.

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Advances for Construction and Contributions in Aid of Construction

The Company may receive advances for construction and contributions in aid of construction from customers, home builders, real estate developers, and others to fund construction necessary to extend service to new areas. Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was $2,249 and $2,671 for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, no non-cash advances or contributions were received.

Revenue Recognition

Under Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* and all related amendments (collectively "ASC 606"), a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for goods or services. Under ASC 606, a contract's transaction price is allocated to each distinct performance obligation. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identifies the contracts with a customer; (ii) identifies the performance obligations within the contract, including whether any performance obligations are distinct and capable of being distinct in the context of the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when, or as, the Company satisfies each performance obligation.

The Company's revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Revenue is generated primarily from water and wastewater services delivered to customers. These contracts contain a single performance obligation, the delivery of water and/or wastewater services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration. Revenues include amounts billed to customers on a cycle basis and unbilled amounts calculated based on estimated usage from the date of the meter reading associated with the latest customer bill, to the end of the accounting period. The amounts that the Company has a right to invoice are determined by each customer's actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. The Company also recognizes revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

Income Taxes

AWW and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried on the Balance Sheets. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis. See Note 9—Income Taxes for additional information.

Allowance for Funds Used During Construction

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

New Accounting Standards

Presented in the table below are new accounting standards that were adopted by the Company in 2022:

Standard	Description	Date of Adoption	Application	Effect on the Financial Statements
Disclosures by Business Entities about Government Assistance	The amendments in this update require additional disclosures regarding government grants and contributions. These disclosures require information on the following three items about government transactions to be provided: information on the nature of transactions and related accounting policy used to account for transactions, the line items on the balance sheet and income statement affected by these transactions including amounts applicable to each line, and significant terms and conditions of the transactions, including commitments and contingencies.	January 1, 2022	Either prospective or retrospective	The standard did not have a material impact on its Consolidated Financial Statements.
Reference Rate Reform	This update provides an additional two-year deferral on the sunset date for temporary relief during the reference rate reform transition period. After December 31, 2024, the Company will no longer be permitted to apply the relief for reference rate reform.	December 21, 2022	Prospective	The standard did not have a material impact on the Consolidated Financial Statements

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of December 31, 2022:

Standard	Description	Date of Adoption	Application	Estimated Effect on the Financial Statements
Troubled Debt Restructurings and Vintage Disclosures	The main provisions of this standard eliminate the receivables accounting guidance for troubled debt restructurings ("TDRs") by creditors while enhancing disclosure requirements when a borrower is experiencing financial difficulty. Entities must apply the loan refinancing and restructuring guidance for receivables to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, the amendments in this update require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases.	January 1, 2023; early adoption permitted	Prospective, with a modified retrospective option for amendments related to the recognition and measurement of TDRs.	The Company is evaluating any impact on its Financial Statements, as well as the timing of adoption.

Reclassifications

Certain reclassifications have been made to prior periods in the Financial Statements and Notes to conform to the current presentation.

Note 3: Regulatory Matters

The State of Kentucky has authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. In 2022, the Company received authorization for $3,373 of annualized incremental revenue effective July 1, 2022, based on infrastructure investment from July 1, 2021 to June 30, 2023.

On September 2, 2022, the Kentucky Public Service Commission issued an Order in the Company's wastewater rate case authorizing additional revenues of approximately $1,000, excluding proposed reductions for excess accumulated deferred income taxes ("EADIT") as a result of the Tax Cuts and Jobs act of 2017. The Order authorized a four-step rate increase for their wastewater operations with effective dates of August 29, 2022, September 2, 2023, September 2, 2024 and September 2, 2025 for annual amounts of less than $1,000 each year.

Regulatory Assets

Regulatory assets represent costs that are probable of recovery from customers in future rates. Generally, the Company does not earn a return on its regulatory assets.

Presented in the table below is the composition of regulatory assets as of December 31:

	2022	2021
Programmed maintenance expense	$ 11,195	$ 12,322
Debt and preferred stock expense	2,222	2,477
Bluegrass water project	1,027	1,085
Other	102	54
Total regulatory assets	$ 14,546	$ 15,938

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a fifteen-year period, as authorized by the Commission in their determination of rates charged for service.

Debt and preferred stock expense represent unamortized debt expense and is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt issuance costs, are deferred and amortized to the extent they will be recovered through future service rates.

The Company previously recorded a regulatory asset for the Bluegrass water project source of supply costs in the amount of $2,283 to be amortized over a forty-year period.

Other regulatory assets are mostly comprised of software upgrade costs.

Regulatory Liabilities

Regulatory liabilities generally represent amounts that are probable of being credited or refunded to customers through the ratemaking process. Also, if costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities.

Presented in the table below is the composition of regulatory liabilities as of December 31:

	2022	2021
Income taxes recovered through rates	$ 33,740	$ 34,263
Removal costs recovered through rates	14,859	15,531
Other	82	100
Total regulatory liabilities	$ 48,681	$ 49,894

Income taxes recovered through rates relate to EADIT that are either currently being amortized as a reduction to income tax expense or will be addressed in future rate cases or other proceedings. This regulatory liability is mainly comprised of the remeasurement of accumulated deferred income taxes resulting from the reduction in the federal corporate income tax rate from 35% to 21%, which became effective January 1, 2018, as a result of the Tax Cuts and Jobs Act of 2017. The Company has adjusted customer rates to reflect the lower income tax rate and is currently amortizing the EADIT as a reduction to income tax expense.

Removal costs recovered through rates are estimated costs to retire assets at the end of their expected useful lives that are recovered through customer rates over the lives of the associated assets.

Other regulatory liabilities are comprised of deferred revenues.

Note 4: Revenue Recognition

Disaggregated Revenues

Presented in the table below are operating revenues disaggregated for the year ended December 31, 2022:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Water Services:			
Residential	$ 59,564	$ —	$ 59,564
Commercial	27,599	—	27,599
Industrial	2,623	—	2,623
Fire Service	7,985	—	7,985
Public and other	7,853	—	7,853
Sales for resale	1,417	—	1,417
Total water services	107,041	—	107,041
Total wastewater services	779	—	779
Miscellaneous utility charges	2,027	—	2,027
Lease contract revenue	—	106	106
Other	1	155	156
Total operating revenues	$ 109,848	$ 261	$ 110,109

(a) Includes revenues associated with lease contracts which are outside the scope of ASC 606 and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the year ended December 31, 2021:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Water Services:			
Residential	$ 57,544	$ —	$ 57,544
Commercial	25,750	—	25,750
Industrial	2,588	—	2,588
Fire Service	7,419	—	7,419
Public and other	5,946	—	5,946
Sales for resale	1,203	—	1,203
Total water services	100,450	—	100,450
Total wastewater services	680	—	680
Miscellaneous utility charges	1,715	—	1,715
Lease contract revenue	—	127	127
Other	3	155	158
Total operating revenues	$ 102,848	$ 282	$ 103,130

(a) Includes revenues associated with lease contracts which are outside the scope of ASC 606 and accounted for under other existing GAAP.

Note 5: Property, Plant and Equipment

Presented in the table below are the property, plant and equipment by category at December 31:

	Range of Remaining Useful Life	2022	2021
Utility Plant:			
Land and other non-depreciable assets	—	$ 9,899	$ 9,899
Sources of supply	42 to 72 Years	63,847	62,870
Treatment and pumping	28 to 46 Years	166,670	166,174
Transmission and distribution	38 to 82 Years	426,074	396,081
Services, meters and fire hydrants	27 to 65 Years	168,572	157,846
General structures and equipment	5 to 57 Years	67,109	68,099
Wastewater	5 to 50 Years	14,153	13,776
Construction work in progress	—	11,002	8,602
Total utility plant		927,326	883,347
Utility plant acquisition adjustments		321	354
Non-utility property		250	250
Total property, plant and equipment		$ 927,897	$ 883,951

The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.65% and 2.70% in 2022 and 2021, respectively.

Note 6: Long-Term Debt

Presented in the table below are the components of long-term debt as of December 31:

	Rate	Weighted Average Rate	Maturity Date	2022	2021
Mortgage bonds	6.96%-7.15%	7.03%	2023-2028	$ 23,500	$ 23,500
Notes payable to affiliated company	0.70%-6.59%	3.74%	2023-2051	221,249	211,249
Cumulative preferred stock with mandatory redemption requirements	8.47%	8.47%	2036	2,250	2,250
Long-term debt				246,999	236,999
Unamortized debt premium, net				(185)	(162)
Less current portion of long-term debt				(33,000)	—
Total long-term debt				$ 213,814	$ 236,837

The general mortgage bonds are issued in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. Based on the calculation methodology specified by the debt agreements, the amount of bonds authorized is limited, as long-term debt cannot exceed 65% of total capitalization, and adjusted net income of the Company must be equal to or greater than 1.5 times the aggregate annual interest charges on all long-term debt of the Company. At December 31, 2022, long-term debt was 48% of total capitalization and net income excluding gains or losses on property sales, amortization of debt issuance costs, interest on long-term debt, and provision for income taxes was 4.26 times the aggregate annual interest charges on all long-term debt. Mortgage bonds are collateralized by utility plant.

The long-term notes payable to affiliated company are unsecured and were issued to American Water Capital Corporation ("AWCC"), a subsidiary of AWW, for the principal amount. AWCC provided the funding for these notes by issuing senior notes to institutional investors at a price equal to the principal amount.

In 2022, the Company issued $10,000 of the of long term notes payable to AWCC with an interest rate of 4.45% due in 2032.

Maturities of long-term debt will amount to $33,000 in 2023, $7,500 in 2027, and $206,499 subsequent to 2027. There are no maturities of long-term debt scheduled for 2024 through 2026. Preferred stock agreements contain provisions for redemption at various prices on thirty-day notice at the Company's discretion. In the event of voluntary liquidation, the 8.47% series is redeemable at $100 per share plus the make-whole premium, together with accrued dividends.

Note 7: Short-Term Debt

The Company maintained a line of credit agreement with AWCC for $35,000 at December 31, 2022 and 2021. The Company may borrow from this line of credit agreement, which does not have an expiration date. No compensating balances are required under the agreements. Funds were primarily used for short-term operating needs. There were $13,863 and $20,364 of outstanding borrowings at December 31, 2022 and 2021, respectively. The weighted average annual interest rate on these borrowings was 4.41% and 0.20% in 2022 and 2021, respectively. Short-term debt is presented as Notes payable-affiliated company on the Balance Sheets.

AWW, through AWCC, has committed to make additional financing available to the Company, as needed, to pay its obligations as they come due.

Note 8: General Taxes

Presented in the table below are the components of general tax expense for the years ended December 31:

	2022	2021
Property	$ 5,503	$ 8,077
Payroll	645	583
Other general	184	205
Total general taxes	$ 6,332	$ 8,865

Note 9: Income Taxes

Presented in the table below are the components of income tax expense for the years ended December 31:

	2022	2021
State Income Tax		
Current	$ 80	$ 642
Deferred	1,292	777
Total state income taxes	$ 1,372	$ 1,419
Federal income taxes:		
Current	$ 1,375	$ 2,714
Deferred	5,356	1,949
Amortization of deferred investment tax credits	(63)	(73)
Total federal income taxes	6,668	4,590
Total income taxes	$ 8,040	$ 6,009

The primary components of the net deferred tax liability of $62,231 and $55,687 at December 31, 2022 and 2021, respectively, include basis differences in utility plant partially offset by advances and contributions. No valuation allowances were required on deferred tax assets at December 31, 2022 and 2021 as management believes it is more likely than not that deferred tax assets will be realized.

AWW and its subsidiaries participate in a consolidated state filing for Kentucky state income tax purposes. At December 31, 2022 and 2021, the Company had no federal nor state net operating loss carryforward calculated on a stand-alone basis.

As of December 31, 2022 and 2021, the Company's reserve for uncertain tax positions is $1,882 and $1,150 respectively, excluding accrued interest and penalties. The Company’s tax positions relate primarily to the deductions claimed for repair and maintenance costs on its utility plant. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. Since there are no federal or state net operating loss carryforwards available, tax attributes are not available to reduce the liabilities for uncertain tax positions or interest accrued as presented on the Company’s Financial Statements. If the Company sustains all of its positions as of December 31, 2022, there would be no impact to the Company’s effective tax rate, other than reversal of interest and penalties. The Company had an immaterial amount of interest and penalties related to its tax positions as of December 31, 2022 and 2021.

The Company files income tax returns in the United States federal and state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2019.

Note 10: Employee Benefit Plans

Savings Plan for Employees

The Company maintains a 401(k) savings plan, sponsored by AWW, allowing employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans of $531 and $484 for 2022 and 2021, respectively. All of the Company's contributions are invested in one or more funds at the direction of the employees.

Pension Benefits

The Company participates in a Company-funded defined benefit pension plan, sponsored by AWW, covering eligible employees hired before January 1, 2006. Benefits under the plan are based on an employee's years of service and compensation. The pension plan was closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement.

The Company's pension cost is based on an allocation from AWW of the total cost related to the plan. The allocation is based upon the Company's participants' pensionable earnings as a percentage of AWW's total plan pensionable earnings. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated a benefit of $563 and $409 in 2022 and 2021, respectively.

AWW's funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, AWW will consider additional contributions if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006. AWW may also consider increased contributions based on other financial requirements and the plan's funded position. The Company's pension contributions are based on an allocation from AWW of the total contributions related to the plan. Contributions are allocated to the Company from AWW based upon the Company's participants' pensionable earnings as a percentage of AWW's total plan pensionable earnings. The Company made contributions of $420 and $457 in 2022 and 2021, respectively. The Company expects to contribute $468 to the AWW plan in 2023.

Postretirement Benefits Other Than Pensions

The Company participates in a Company-funded plan, sponsored by AWW, that provides varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006, and for non-union employees hired on or after January 1, 2002.

Costs of the Company are based on an allocation from AWW of the total cost related to the plan. The allocation is based upon the Company's covered participants as a percentage of AWW's total plan covered participants. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company was allocated a benefit of $1,083 and $1,045 in 2022 and 2021, respectively.

Contributions of $270 and $62 were made in 2022 and 2021, respectively. No contribution to the plan is required in 2023.

Note 11: Related Parties

American Water Works Service Company, Inc. ("AWWS"), a subsidiary of AWW, provides certain management and operational services to the Company (administration, accounting, communications, data processing, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, legal, operations, procurement, rates, security, risk management, water quality, research and development, etc.) and other operating companies that are subsidiaries of AWW on an at-cost, not-for-profit basis in accordance with a management and service agreement.

Purchases of such services by the Company were accounted for as follows:

	2022	2021
Included in operation and maintenance expense as a charge against income	$ 12,020	$ 12,534
Capitalized primarily in utility plant	4,488	3,319
	$ 16,508	$ 15,853

The Company provided workspace for certain associates of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to $155 in 2022 and 2021, respectively.

The Company maintains a line of credit through AWCC. The Company also participates in AWCC's centralized treasury function, whereby the Company transfers its cash to AWCC and the Company's checks are issued out of AWCC. Under this arrangement, available cash is used to pay-down the line of credit and issued checks increase the Company's line of credit balance.

Presented in the table below are a summary of the Company's transactions with AWCC:

	2022	2021
Fees paid to AWCC	$ 64	$ 66
Interest expense on short-term borrowings with AWCC	306	77
Interest expense on long-term debt with AWCC	8,104	7,660
Accrued interest expense including amounts due to AWCC	1,638	1,601

The Company received $15,000 cash capital contributions from AWW in 2022 and no cash capital contributions from AWW in 2021. The Company also received non-cash capital contributions of $100 and $35 in 2022 and 2021, respectively. The Company received a cash capital contribution of $10,000 from AWW in March 2023.

The Company pays dividends to AWW on a quarterly basis. The amount of the dividend is based on a percentage of net income adjusted for certain items. The Company paid dividends of $11,648 and $15,800 in 2022 and 2021, respectively.

Note 12: Fair Value of Financial Information

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amounts reported on the Balance Sheets for current assets and current liabilities approximate their fair values.

Preferred stock with mandatory redemption and long-term debt: The fair values of the Company's long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs.

Presented in the table below are carrying amounts and fair values of the financial instruments:

	As of December 31, 2022				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 2,250	—	$ —	$ 2,366	$ 2,366
Long-term debt	244,564	—	116,995	118,890	235,885

	As of December 31, 2021				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 2,250	—	$ —	$ 3,293	$ 3,293
Long-term debt	234,587	—	146,522	131,795	278,317

Fair Value Measurements

To increase consistency and comparability in fair value measurements, GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds, and money market funds.

- Level 2 - Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.

- Level 3 - Unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

Recurring Fair Value Measurements

The Company had immaterial amounts of assets and liabilities measured and recorded at fair value on a recurring basis as of December 31, 2022 and 2021.

Note 13: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legally binding contracts amounted to $4,238 at December 31, 2022.

As of December 31, 2022, the Company has no future annual commitments for service agreements.

The Company is routinely involved in legal actions incident to the normal conduct of its business. At December 31, 2022, the Company has not identified any material loss contingencies that are probable or reasonably possible for existing matters.

Note 14: Subsequent Events

The Company performed an evaluation of subsequent events for the accompanying Financial Statements through April 5, 2023, the date this report was issued and determined that no circumstances warranted recognition and disclosure of those events or transactions in the Financial Statements as of December 31, 2022.