

NORTH SHELBY WATER COMPANY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2021 and 2020

**NORTH SHELBY WATER COMPANY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2021 and 2020

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Basic Financial Statements:	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Fund Net Position	4
Statement of Cash Flows	5-6
Notes to Basic Financial Statements	7-30
Required Supplemental Information	
Schedule of the Water Company's Proportionate Share of the Net Pension Liability – County Employees Retirement System	31
Schedule of the Water Company's Contributions (Pension) – County Employees Retirement System	32
Schedule of the Water Company's Proportionate Share of the Net OPEB Liability – County Employees Retirement System	33
Schedule of the Water Company's Contributions (OPEB) – County Employees Retirement System	34
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 <u>Government Auditing Standards</u>	35-36
Schedule of Findings and Responses	37-38

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INDEPENDENT AUDITOR'S REPORT

To the Directors of the
North Shelby Water Company
Bagdad, Kentucky 40003

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of North Shelby Water Company as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the North Shelby Water Company'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 financial position of the North Shelby Water Company, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years 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 North Shelby Water 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 North Shelby Water Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

**Commissioners of the
North Shelby Water Company
Page Two**

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 North Shelby Water 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 North Shelby Water 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the Table of Contents on pages 31 through 34, 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 require to be presented to supplement the basic financial statements. Such missing information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2022, on our consideration of the North Shelby Water Company'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 North Shelby Water Company'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 North Shelby Water Company's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

August 12, 2022

**NORTH SHELBY WATER COMPANY
STATEMENT OF NET POSITION
December 31, 2021 and 2020**

	2021	2020
ASSETS		
Current Assets:		
Cash	\$ 2,978,948	\$ 2,968,304
Accounts Receivable (Net)	354,355	320,411
Other Receivables	37,816	54,029
Inventory	446,240	405,063
Prepaid Expenses	40,483	36,275
Total Current Assets	\$ 3,857,842	\$ 3,784,082
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,264,851	\$ 1,302,384
Capital Assets (Net)	17,646,391	17,579,843
Total Noncurrent Assets	\$ 18,911,242	\$ 18,882,227
Total Assets	\$ 22,769,084	\$ 22,666,309
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 320,239	\$ 235,776
Attributable to OPEB Plan	271,952	201,242
Total Deferred Outflows of Resources	\$ 592,191	\$ 437,018
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 199,699	\$ 189,930
Accrued Wages	-	2,700
Accrued Compensated Absences	12,408	11,785
Accrued Employee Benefits	13,966	12,342
Accrued Payroll Taxes/Employee Withholding	12,504	9,546
Utility Tax Payable	8,268	8,046
Sales Tax Payable	1,617	1,691
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	381	5,122
Accrued Interest Payable - Notes Payable	63,878	65,489
Notes Payable	166,761	161,754
Total Current Liabilities	\$ 479,482	\$ 468,405
Noncurrent Liabilities:		
Notes Payable	\$ 7,903,914	\$ 8,070,675
Net Pension Liability	1,413,384	1,450,611
Net OPEB Liability	424,280	456,547
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	317,770	308,576
Total Noncurrent Liabilities	\$ 10,059,348	\$ 10,286,409
Total Liabilities	\$ 10,538,830	\$ 10,754,814
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	\$ 256,928	\$ 30,054
Attributable to OPEB Plan	218,893	92,055
Total Deferred Inflows of Resources	\$ 475,821	\$ 122,109
NET POSITION		
Net Investment in Capital Assets	\$ 9,542,156	\$ 9,347,414
Restricted for Capital Projects	127,599	213,379
Restricted for Debt Service	755,604	714,940
Unrestricted	1,921,265	1,950,671
Total Net Position	\$ 12,346,624	\$ 12,226,404

NORTH SHELBY WATER COMPANY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 3,411,881	\$ 3,231,525
Total Charges for Services	\$ 3,411,881	\$ 3,231,525
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 92,935	\$ 30,541
Building Rental Income	30,000	30,000
Equipment Rental Income	55,212	48,105
Contractual Services	176,924	159,359
Miscellaneous	13,400	8,735
Total Other Charges and Miscellaneous	\$ 368,471	\$ 276,740
Total Operating Revenues	\$ 3,780,352	\$ 3,508,265
Operating Expenses:		
Accounting and Collecting Labor	\$ 388,597	\$ 359,254
Commissioner Fees	36,400	28,700
Contractual Service	22,480	63,799
Employee Benefits	169,851	128,185
Employee Benefits - OPEB Expense	54,729	55,213
Employee Retirement Expense	223,593	227,259
Insurance	63,462	59,883
Maintenance of Mains	175,690	102,068
Miscellaneous	15,635	14,246
Office Supplies and Expense	92,095	83,265
Operating Labor	104,279	94,666
Other Interest Expense	456	5,672
Payroll Taxes	47,210	43,105
Professional Services	49,417	43,455
Purchased Water	1,262,161	1,247,865
Purchased Power	76,481	68,157
Regulatory Fees	7,114	7,210
Transportation Expense	52,186	44,879
Utilities	27,230	27,212
Depreciation Expense	747,182	705,943
Total Operating Expenses	\$ 3,616,248	\$ 3,410,036
Operating Income (Loss)	\$ 164,104	\$ 98,229
Nonoperating Revenue (Expense):		
Investment Income	\$ 13,965	\$ 26,829
Interest Expense	(237,578)	(238,004)
Gain (Loss) on Disposition of Fixed Assets	35,445	-
Total Nonoperating Revenues (Expense)	\$ (188,168)	\$ (211,175)
Income (Loss) Before Contributions	\$ (24,064)	\$ (112,946)
Capital Contributions	144,284	81,981
Change in Net Position	\$ 120,220	\$ (30,965)
Net Position - Beginning of Year	12,226,404	12,257,369
Net Position - End of Year	\$ 12,346,624	\$ 12,226,404

NORTH SHELBY WATER COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 3,771,963	\$ 3,524,704
Payments to Suppliers	(2,352,265)	(2,341,611)
Payments to Employees	(456,929)	(450,337)
Other Receipts (Payments)	(2,239)	(1,007)
Net Cash Provided (Used) by Operating Activities	\$ 960,530	\$ 731,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 144,284	\$ 81,981
Purchases of Capital Assets	(786,975)	(1,004,842)
Proceeds from Rural Development Note	-	376,214
Proceeds Sale of Capital Assets	42,250	-
Principal Paid on Capital Debt	(161,754)	(179,697)
Interest Paid on Capital Debt (Including Capitalized Interest)	(239,189)	(228,783)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (1,001,384)	\$ (955,127)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Received (Invested) in Certificates of Deposits	\$ (3,767)	\$ (7,398)
Interest Received	13,965	26,829
Net Cash Provided (Used) by Investing Activities	\$ 10,198	\$ 19,431
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (30,656)	\$ (203,947)
Balances-Beginning of the Year	3,931,310	4,135,257
Balances-End of the Year	\$ 3,900,654	\$ 3,931,310

	Balances Per December 31, 2021 Statement of Net Position	Balances Per December 31, 2021 Statement of Cash Flows
Unrestricted Cash	\$ 2,978,948	\$ 2,978,948
Restricted Cash	921,706	921,706
Restricted Certificates of Deposit	343,145	-
Total Cash and Cash Equivalents, End of Year	\$ 4,243,799	\$ 3,900,654

	Balances Per December 31, 2020 Statement of Net Position	Balances Per December 31, 2020 Statement of Cash Flows
Unrestricted Cash	\$ 2,968,304	\$ 2,968,304
Restricted Cash	963,006	963,006
Restricted Certificates of Deposit	339,378	-
Total Cash and Cash Equivalents, End of Year	\$ 4,270,688	\$ 3,931,310

(Continued)

NORTH SHELBY WATER COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	2021	2020
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 164,104	\$ 98,229
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	747,182	705,943
Pension & OPEB Expense	129,045	158,272
Change in Assets and Liabilities:		
Receivables, Net	(33,944)	35,219
Other Receivables	16,213	(26,077)
Inventories	(41,177)	(233,136)
Prepaid Expenses	(4,208)	(2,680)
Accounts Payable	(23,791)	(19,566)
Accrued Expenses	(2,088)	4,299
Customer Meter Deposits Payable	9,194	11,246
 Net Cash Provided by Operating Activities	 \$ 960,530	 \$ 731,749

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

North Shelby Water Company had \$33,560 outstanding construction accounts payable or retainage payable related to capital projects in process at December 31, 2021.

North Shelby Water Company had no accounts payable or retainage payable related to capital expenditures, financing, or investing activities outstanding at December 31, 2020.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The North Shelby Water Company is a rural water company serving customers in Franklin, Henry, Oldham and Shelby Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water Company was formed as a 501(c)12 nonprofit organization in August 1972. Eight directors are elected from the members to manage the affairs of the corporation.

In evaluating how to define North Shelby Water Company for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Water Company is able to exercise oversight responsibilities. Based upon the application of these criteria, the Water Company has no component units.

A summary of the Water Company's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.012, "any water association formed for the purpose of furnishing water services to the general public pursuant to KRS Chapter 273 is deemed to be and shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the Water Company are prepared in accordance with generally accepted accounting principles (GAAP). The Water Company applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the Water Company are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the Water Company is determined by its measurement focus. The transactions of the Water Company are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Water Company. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. The Water Company adheres to the use restrictions established by note agreements when expenses are incurred for which both restricted and unrestricted net position is available. The Water Company has no policy defining which resources (restricted or unrestricted) to use first. Restricted amounts are considered to have been spent when an expense is incurred for the purpose of such classification.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Buildings & Improvements	10-30 years
- Distribution System	5-50 years
- Machinery & Equipment	3-30 years

Inventory: Inventories are stated at cost based on first in – first out.

Compensated Absences: See Note 15 for the Water Company's policy on vacation and sick pay.

Pension: 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 Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Post Employment Benefits Other Than Pensions: For purposes of measuring the net liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources: Deferred outflows of resources and deferred inflows of resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income Taxes: The corporation is a nonprofit organization and is exempt from income taxes under Section 501(c)12 of the Internal Revenue Code.

Contributed Capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Water Company recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net position. Tap-on fees of \$83,200 and \$81,981 were received by the Water Company for the years ended December 31, 2021 and 2020. Customer contributions of \$61,084 were received by the Water Company for the year ended December 31, 2021 line extensions.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, North Shelby Water Company considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Debt Service Account was established with the original RECD note payable, and is to be continued to be maintained as long as any of the notes are outstanding. Under the loan agreement which established this account, it was provided that a minimum balance be maintained in this account as security to the creditor. In order to attain the minimum balance, a monthly transfer must be made in the sum equal to at least 1/12 of the annual installment next becoming due.

Transfers sufficient to meet the total obligation outstanding on all notes were made during the year ended December 31, 2021 and December 31, 2020.

Under the various loan agreements between North Shelby Water Company and Rural Development, a depreciation account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Debt Service Account.

A funded short lived asset account is required under the letter of conditions establishing funding for the 2012, 2013, 2014, and 2015 Rural Development Notes. A short lived asset account must be funded at the beginning of the next calendar year following the completion and operational startup of the asset. This account may be used as needed to replace and add short lived assets in the Company's water system.

The monthly requirements, required accumulated balances, and maximum required balances for each note are as follows:

	Depreciation Account			Short Lived Asset Account
	Required Monthly Requirement	Accumulated Balance at December 31, 2021	Maximum Required Balance	Monthly Requirement
1971 and 1972 Notes	\$ 741	\$ 88,920	\$ 88,920	\$ -
1979 Note	113	13,560	13,560	-
1993 Note	185	22,200	22,200	-
1998 Note	135	16,200	16,200	-
2000 Note	260	31,200	31,200	-
2012 Note	515	49,440	61,800	1,667
2013 Note	840	60,480	100,800	3,335
2014 Note	1,345	64,560	161,000	3,333
2015 Note	875	21,000	105,000	4,153
		<u>\$ 367,560</u>	<u>\$ 600,680</u>	<u>\$ 12,488</u>

The Depreciation Account is to be maintained as long as any of the above notes are outstanding. Sufficient funds were maintained in the depreciation accounts for the years ended December 31, 2021 and 2020. A separate short lived asset account has not been created as of December 31, 2021.

NOTE 3 – CASH AND INVESTMENTS

North Shelby Water Company invests in obligations of the United States and its agencies and instrumentalities through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. As of December 31, 2021, and 2020, \$4,538,476 and \$4,311,261 respectively, of the Company's deposits were covered by federal depository insurance and \$93,145 and \$89,378 were collateralized by securities held by the pledging financial institution's agent or trust department in the Company's name. As of December 31, 2021 and 2020, all of the Company's deposits were collateralized by securities and therefore not exposed to custodial risk.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 3 – CASH AND INVESTMENTS (Continued)

At December 31, 2021 and 2020, the Water Company's deposits were as follows:

December 31, 2021

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 5,000	\$ (4,981)
Time and Savings	4,626,621	4,248,280
Total Deposits	<u>\$ 4,631,621</u>	<u>\$ 4,243,299</u>

December 31, 2020

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 5,000	\$ (119,177)
Time and Savings	4,395,639	4,389,365
Total Deposits	<u>\$ 4,400,639</u>	<u>\$ 4,270,188</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Unrestricted Cash,	\$ 2,978,948	\$ 2,968,304
Restricted Cash, Including Time Deposits	1,264,851	1,302,384
Less Cash on Hand	(500)	(500)
	<u>\$ 4,243,299</u>	<u>\$ 4,270,188</u>

\$373,800 was inadvertently deposited into the bank account of North Shelby Water Company during December 2021. In January 2022, this money was transferred to the appropriate account holder. These funds have been excluded from the cash balance of North Shelby Water Company.

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Debt Service Accounts	\$ 247,753	\$ 239,047
Depreciation Accounts	571,729	541,382
Construction Accounts	127,599	213,379
Customer Deposits	<u>317,770</u>	<u>308,576</u>
Total	<u>\$ 1,264,851</u>	<u>\$ 1,302,384</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$50,388 and \$75,471 at December 31, 2021 and 2020, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

Estimated unbilled water service revenue of \$221,290 and \$218,377 is included in accounts receivable at December 31, 2021 and 2020, respectively.

NOTE 6 – OTHER RECEIVABLES

Other receivables at December 31, 2021 and 2020, respectively, included \$37,816 and \$54,029 receivable for the joint operations contract between North Shelby Water Company and U.S. 60 Water District of Shelby and Franklin Counties, respectively. See Note 17 for details.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020, was as follows:

	<u>Balance at January 1, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2021</u>
Land & Land Rights	\$ 150,421	\$ -	\$ -	\$ 150,421
Structures & Improvements	805,236	-	-	805,236
Distribution System	23,540,721	630,424	(15,749)	24,155,396
Machinery & Equipment	3,075,048	190,111	(72,601)	3,192,558
Construction in Process	-	202,144	(202,144)	-
Totals at Historical Cost	<u>\$ 27,571,426</u>	<u>\$ 1,022,679</u>	<u>\$ (290,494)</u>	<u>\$ 28,303,611</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (238,757)	\$ (32,965)	\$ -	\$ (271,722)
Distribution System	(7,950,309)	(494,837)	15,749	(8,429,397)
Machinery & Equipment	(1,802,517)	(219,380)	65,796	(1,956,101)
Total Accumulated Depreciation	<u>\$ (9,991,583)</u>	<u>\$ (747,182)</u>	<u>\$ 81,545</u>	<u>\$ (10,657,220)</u>
Capital Assets, Net	<u>\$ 17,579,843</u>	<u>\$ 275,497</u>	<u>\$ (208,949)</u>	<u>\$ 17,646,391</u>
	<u>Balance at January 1, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2020</u>
Land & Land Rights	\$ 150,421	\$ -	\$ -	\$ 150,421
Structures & Improvements	747,508	57,728	-	805,236
Distribution System	22,702,356	854,523	(16,158)	23,540,721
Machinery & Equipment	2,982,457	92,591	-	3,075,048
Totals at Historical Cost	<u>\$ 26,582,742</u>	<u>\$ 1,004,842</u>	<u>\$ (16,158)</u>	<u>\$ 27,571,426</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (206,940)	\$ (31,817)	\$ -	\$ (238,757)
Distribution System	(7,492,359)	(474,108)	16,158	(7,950,309)
Machinery & Equipment	(1,602,499)	(200,018)	-	(1,802,517)
Total Accumulated Depreciation	<u>\$ (9,301,798)</u>	<u>\$ (705,943)</u>	<u>\$ 16,158</u>	<u>\$ (9,991,583)</u>
Capital Assets, Net	<u>\$ 17,280,944</u>	<u>\$ 298,899</u>	<u>\$ -</u>	<u>\$ 17,579,843</u>

Included under the Water Company's capital assets at December 31, 2021 and 2020, were \$1,299,273 and \$1,302,505 of fully depreciated assets, respectively. Land and land rights, and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$747,182 and \$705,943 in 2021 and 2020, respectively.

NOTE 8 – CUSTOMER DEPOSITS

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Interest accrued is refunded to the customer or credited to the customer's bill on an annual basis. At December 31, 2021 and 2020, accrued interest on customer deposits was \$381 and \$5,122, respectively.

North Shelby Water Company has not maintained a separate bank account specifically for cash collected and disbursed relating to customer deposits.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 9 – LONG TERM DEBT

As of December 31, 2021 and 2020, the long-term debt payable consisted of the following:

Notes Payable:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
1993 RECD note, original loan amount of \$300,600, secured by water revenues. Interest is charged 5.625% per annum. Final maturity is April, 2033.	\$ 162,028	\$ 171,429
1998 RECD note, original loan amount of \$288,500, secured by water revenues. Interest is charged 4.5% per annum. Final maturity is October, 2038.	186,290	193,565
2000 RECD note, original loan amount of \$568,000, secured by water revenues. Interest is charged 4.375% per annum. Final maturity is May, 2040.	393,246	406,394
2012 RECD note, original loan amount of \$1,069,758, secured by water revenues. Interest is charged at 3.5% per annum. Final maturity is November, 2052.	963,628	980,655
2013 RECD note, original loan amount of \$2,100,000, secured by water revenues. Interest is charged at 3.125% per annum. Final maturity is September, 2054.	1,942,987	1,976,418
2014 RECD note, approved for \$2,755,000, secured by water revenues. Interest is charged at 2.375% per annum. Final maturity is October, 2056.	2,606,674	2,654,519
2015 RECD note, approved for \$1,988,000, secured by water revenues. Interest is charged at 2.375% per annum. Final maturity is October, 2057.	<u>1,815,822</u>	<u>1,849,449</u>
Total Notes Payable	<u>\$ 8,070,675</u>	<u>\$ 8,232,429</u>
Current Portion	\$ 166,761	\$ 161,754
Noncurrent Portion	<u>7,903,914</u>	<u>8,070,675</u>
Total Notes Payable	<u>\$ 8,070,675</u>	<u>\$ 8,232,429</u>
Accrued Compensated Absences:		
All Classified as Current	<u>\$ 12,408</u>	<u>\$ 11,785</u>

If there is any default in the payment of the principal of or interest on any of the bonds, then upon the filing of suit by any holder of said bonds, any court having jurisdiction of the action may appoint a receiver to administer the system on behalf of the Water Company, with power to charge and collect rates sufficient to provide for the payment of current expenses, and to apply the revenues in conformity with the bond resolution and the provisions of the statute laws of Kentucky.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 9 – LONG TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2021 and 2020.

December 31, 2021

	<u>Balance at</u> <u>January 1, 2021</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at</u> <u>December 31, 2021</u>	<u>Current</u> <u>Portion</u>
Notes Payable	\$ 8,232,429	\$ -	\$ (161,754)	\$ 8,070,675	\$ 166,761
Accrued Compensated Absences	11,785	54,841	(54,218)	12,408	12,408
Total Long-Term Debt	<u>\$ 8,244,214</u>	<u>\$ 54,841</u>	<u>\$ (215,972)</u>	<u>\$ 8,083,083</u>	<u>\$ 179,169</u>

December 31, 2020

	<u>Balance at</u> <u>January 1, 2020</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at</u> <u>December 31, 2020</u>	<u>Current</u> <u>Portion</u>
Notes Payable	\$ 8,035,912	\$ 376,214	\$ (179,697)	\$ 8,232,429	\$ 161,754
Accrued Compensated Absences	10,902	48,351	(47,468)	11,785	11,785
Total Long-Term Debt	<u>\$ 8,046,814</u>	<u>\$ 424,565</u>	<u>\$ (227,165)</u>	<u>\$ 8,244,214</u>	<u>\$ 173,539</u>

The annual requirements for all notes payable outstanding at December 31, 2021 are as follows:

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 166,761	\$ 234,182	\$ 400,943
2023	171,938	229,004	400,942
2024	177,289	223,653	400,942
2025	182,823	218,119	400,942
2026	188,544	212,398	400,942
2027-2031	1,035,671	969,039	2,004,710
2032-2036	1,148,858	796,851	1,945,709
2037-2041	1,210,259	617,797	1,828,056
2042-2046	1,226,896	448,024	1,674,920
2047-2051	1,405,750	269,170	1,674,920
2052-2057	1,155,886	76,952	1,232,838
	<u>\$ 8,070,675</u>	<u>\$ 4,295,189</u>	<u>\$ 12,365,864</u>

The annual requirements for all notes payable outstanding at December 31, 2020 are as follows:

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 161,754	\$ 239,188	\$ 400,942
2022	166,761	234,182	400,943
2023	171,938	229,004	400,942
2024	177,289	223,653	400,942
2025	182,823	218,119	400,942
2026-2030	1,003,971	1,000,739	2,004,710
2031-2035	1,132,609	832,114	1,964,723
2036-2040	1,220,729	654,241	1,874,970
2041-2045	1,194,025	480,895	1,674,920
2046-2050	1,367,952	306,967	1,674,919
2051-2055	1,318,865	112,069	1,430,934
2056-2057	133,713	3,176	136,889
	<u>\$ 8,232,429</u>	<u>\$ 4,534,347</u>	<u>\$ 12,766,776</u>

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 10 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2021 and 2020 was \$238,034 and \$243,676, respectively.

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

	December 31, 2021	December 31, 2020
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 127,599	\$ 213,379
Total Restricted for Capital Projects	\$ 127,599	\$ 213,379
Restricted for Debt Service:		
RECD Notes Payable		
Cash	\$ 819,482	\$ 780,429
Less: Accrued Interest Payable	(63,878)	(65,489)
Total Restricted for Debt Service	\$ 755,604	\$ 714,940

Unrestricted net position was reduced by \$129,045 and \$158,272 for the years ended December 31, 2021 and 2020, respectively, as a result of the transactions recorded by the Company to reflect its proportionate share of the County Employees Retirement System's Net Pension Liability and Net OPEB Liability. The accounts affected were as follows:

	2021	2020
Increase (Decrease) in Deferred Outflows of Resources	\$ 155,173	\$ 61,746
(Increase) Decrease in Deferred Inflows of Resources	(353,712)	60,657
(Increase) Decrease in Net Pension Liability	37,227	(137,964)
(Increase) Decrease in Net OPEB Liability	32,267	(142,711)
Net Decrease in Unrestricted Net Position	\$ (129,045)	\$ (158,272)

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of zero and \$48,801 at December 31, 2021 and 2020, respectively.

NOTE 13 – INSURANCE AND RELATED ACTIVITIES

The Water Company is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of commercial insurance.

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN)

The North Shelby Water Company participates in the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees administered by the Kentucky Public Pension Authority (KPPA). Under revised Statute Section 78.732 and 61.645, the KPPA oversees the administration and operation of the personnel and accounting systems for the CERS, which is administered by the CERS board.

The responsibility for the general administration and operation of CERS is vested in its Board of Trustees. The CERS Board of Trustees consists of 9 members. Six trustees are appointed by the governor and three are elected by CERS members and retired members. Of the six appointed trustees, three must have investment experience and three must have retirement experience as defined by statute. All appointments by the governor are subject to Senate confirmation.

The Kentucky Public Pensions Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Public Pensions Authority issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts by Employer, and the Schedules of Employer Allocations and OPEB Amounts, by Employer. The most recent financial reports, may be obtained on-line as follows:

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

- Kentucky Retirement Systems Audit Report – 2021
<https://kyret.ky.gov/Publications/Books/2021%20Annual%20Report.pdf>
- KRS Schedules of Employer Allocations & Pension Amount by Employer for the Fiscal Year Ended June 30, 2021
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2021%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- KRS Schedules of Employer Allocations & OPEB Amounts by Employer for the Fiscal Year Ended June 30, 2021
<https://kyret.ky.gov/Employers/GASB/Current%20Audited%20Reports/2021%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky CERS GASB 68 Accounting & Financial Reporting for Pensions as of June 30, 2021 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2021%20GASB%2068%20Actuary%20Report%20CERS.pdf>
- Kentucky CERS GASB 75 Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions as of June 30, 2021 (Actuarial Report)
<https://kyret.ky.gov/Employers/GASB/GASB%2068%20and%2075%20Actuary%20Reports/2021%20GASB%2075%20Actuary%20Report%20CERS.pdf>

Basis of Accounting – CERS’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments/Investment Objectives – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS’ gains and losses on investments bought and sold as well as held during the fiscal year. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio of comparable unmanaged market indices.
- Medium-Term (5 to 20 years): The returns of the particular asset classes of the managed funds, measured on a rolling 5 to 20 year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- Longer-Term: The total assets of the KRS should achieve a return of 6.25% for CERS pension and insurance plans. This is measured for 20 years and beyond and should exceed the actuarially required rate of return as well as the return achieved by its total fund benchmark.

Target Asset Allocation – Pension and Insurance as of June 30, 2021 and 2020:

**NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

The long-term expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. The current long-term inflation assumption is 2.3% per annum.

	Target Asset Allocation		Long-Term Expected Rate of Return	
	2021	2020	2021	2020
Combined Equity	53.50%	52.50%	5.70%-9.70%	3.90%-5.25%
Combined Fixed Income	15.00%	13.50%	2.80%	-0.25%
Private Equity	10.00%	10.00%	0.00%	6.65%
Real Return	10.00%	15.00%	4.55%	3.95%
Real Estate	10.00%	5.00%	5.40%	5.30%
Opportunistic	0.00%	3.00%	0.00%	2.25%
Cash	1.50%	1.00%	-0.60%	-0.75%
	<u>100.00%</u>	<u>100.00%</u>	<u>5.00%</u>	<u>3.96%</u>

- The investment portfolio for the Pension Funds reported a net return of 25.00% for the fiscal year 2021 compared to 1.15% return for fiscal year 2020. The investment portfolio for the Insurance Fund reported a net return of 24.95% for the fiscal year, which was higher than fiscal year 2020 net return of 0.48%. The investment return was above the 6.25% assumed rate of return.

PENSION PLAN DESCRIPTION – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS along with hazardous duty positions of each participating county, city, or school board, and any additional eligible local agencies electing to participate in CERS. 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. Prior to July 1, 2009, Cost of Living Adjustments were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.5%. No COLA has been granted since July 1, 2011.

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

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

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings for Tier 1 and Tier 2. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after earning a minimum months of service credit (120 months for Tier 2 and 180 months for Tier 3).

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in a lump sum. The beneficiary of a deceased active member is eligible for a monthly benefit if the member was (1) eligible for retirement at the time of death or, (2) under the age of 65 for non-hazardous members with at least 60 months of service credit and currently working for a participating agency at the time of death, or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump-sum payment of the member’s contributions and any accumulated interest.

Senate Bill 169 passed during the 2021 legislative session increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability.

Contributions – Local government participating employers are required to contribute at an actuarially determined rate per Kentucky Revised Statute Section 78.545(33). The CERS Board of Trustees establishes the employer contribution rate each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year for local governments in Kentucky. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. Under House Bill 352, the 2020 General Assembly only passed a one year budget (for the fiscal year ended June 30, 2021 due to the COVID-19 pandemic crisis. For the fiscal years ended June 30, 2021 and 2020 participating non-hazardous employers contributed 24.06% of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2021 and 2020 were 26.95% and 27.28%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

Non-hazardous employer contributions for the year ended June 30, 2021 and 2020, of 24.06% were allocated 19.30% to CERS’s pension fund and 4.76% to CERS OPEB (health insurance) fund, respectively.

For the fiscal years ended June 30, 2021 and 2020, membership consisted of:

Tier 1:

Plan members who began participating prior to September 1, 2008, are required to contribute 5% non-hazardous, of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members’ accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2:

Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, are required to contribute a total of 6% non-hazardous, of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contributions are deposited to the member’s account. One percent of these contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members’ accounts at a rate of 2.5%.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

**NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Tier 3:

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. These members are classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and an additional 1% to the health insurance fund which is not credited to the member's account and is not refundable. Tier 3 member accounts are also credited with an employer pay credit. The employer pay credit represents a portion of the employer contribution.

Interest is paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's account balance as of June 30th of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the systems' GANIR for the previous five years exceeds 4%, then the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30th of the previous year (Upside Sharing Interest). It is possible that one system in KPPA may get an Upside Sharing Interest, while another may not.

The one percent of pay member contributions for Tier 1 and Tier 2 members to a 401(h) subaccount are considered an OPEB asset.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Pension Plan)

Per the Kentucky Retirement System's 2021 Comprehensive Annual Financial Report, the Actuarially determined contribution rates effective for fiscal year 2021 were

Based on the June 30, 2019, actuarial valuation report (as amended by SB249, passed during the 2020 legislative session), the actuarial methods and assumptions used to

Item	CERS June 30, 2021 Non-Hazardous	CERS June 30, 2020 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2019	June 30, 2018
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	30 Years, Closed period at June 30, 2019. Gains/Losses incurring after 2019 will be amortized over separate closed 20 year amortization bases.	25 Years, Closed
Payroll Growth Rate:	2.00%	2.00%
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 10.30%, varies by service	3.30% to 11.55%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013 - 2018, projected with the ultimate rates from MP-204 mortality improvement scale using a base year of 2019.	RP-200 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females). For healthy retired members and beneficiaries, the mortality table used is the RP Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 combined disabled mortality table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.	N/A

**NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Actuarial Methods and Assumptions Used in Calculation of the Actuarially Determined Total Pension Liability and Net Pension Liability

The Board of Trustees, in consultation with the actuary, set the actuarial assumptions and methods in the actuarial valuation. In general, the assumptions used in the June 30, 2021 actuarial valuations were adopted for first use in the June 30, 2019 valuation and are based on an experience study conducted with experience through June 30, 2018. There were no changes in actuarial assumptions or methods since the prior valuation. The net pension liability as of June 30, 2021, is based on the June 30, 2020 actuarial valuation rolled forward to June 30, 2021. The total pension liability, net pension liability and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date to the measurement date at June 30, 2021, using generally accepted actuarial principles.

The net position liability as of June 30, 2020, was based on the June 30, 2019 actuarial valuation rolled forward. The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date to the measurement date at June 30, 2020, using generally accepted actuarial principles.

The actuarial assumptions are:

June 30, 2021 and 2020

Inflation	2.30%
Salary Increases	3.30% - 10.30% varies by service
Investment Rate of Return	6.25%

The mortality table(s) used in the determination of the total pension liability as of June 30, 2021 and 2020 were as follows.

- The mortality table used for active members was a Pub-2010 General Mortality table for the Non-hazardous System, 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 the 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 single discount rate of 6.25% for CERS was based on the expected return on pension investments. The projection of cash flows used to determine the single discount rate assumes that each participating employer contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy established in statute, as last amended by House Bill 362 (passed in 2018).

The discount rate does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the KPPA Comprehensive Annual Financial Report.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At December 31, 2021 and 2020 the Company reported a liability of \$1,413,384 and \$1,450,611, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2021, and 2020 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The Company's proportion of the net pension liability was based on a projection of the Company's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, and 2020 the Company's proportion was 0.022168% and 0.018913% percent, respectively, which is an increase of 0.003255 and of 0.000249% for the years ended June 30, 2021 and June 30, 2020, respectively.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

The Company's total payroll for the calendar year ended December 31, 2021 was \$599,795. Contributions to the CERS were based on \$584,663 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2021 were \$118,409.

The Company's total payroll for the calendar year ended December 31, 2020 was \$556,012. Contributions to the CERS were based on \$521,354 (covered payroll). The total employer pension contributions for the calendar year ended December 31, 2020 were \$99,633.

All contributions were made as required.

The Company's contribution for the County Employees' Retirement System's year(s) ended June 30, 2021, and 2020 was 0.022168 and 0.018913 percent, respectively, of the System's total contribution requirements for all employers.

For the years ended December 31, 2021, and December 31, 2020, the Company recognized pension expense of \$223,593 and \$227,259, respectively. At December 31, 2021 and 2020 the Company reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 16,230	\$ 13,718	\$ 36,174	\$ -
Change in Assumptions	18,969	-	56,644	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	167,162	-	26,158	3,475
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	54,830	243,210	62,879	26,579
Company Contributions Made Subsequent to the NPL Measurement Date	<u>63,048</u>	<u>-</u>	<u>53,921</u>	<u>-</u>
Total	<u>\$ 320,239</u>	<u>\$ 256,928</u>	<u>\$ 235,776</u>	<u>\$ 30,054</u>

\$63,048 and \$53,921 reported as deferred outflows of resources related to pensions arising from Company contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2022 and 2021, respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

Year Ended December 31, 2021:	Increase (Decrease) to Pension Expense
2022	\$ 64,927
2023	31,404
2024	(37,076)
2025	(58,992)
	\$ 263

Year Ended December 31, 2020:	Increase (Decrease) to Pension Expense
2021	\$ 70,462
2022	48,341
2023	18,420
2024	14,578
	\$ 151,801

Sensitivity of the Company’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2021 and 2020], calculated using the discount rates of 6.25% and 6.25% for the years ended June 30, 2021 and 2020, respectively, as well as what CERS’ net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

As of June 30, 2021	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	\$ 8,177,245,927	\$ 6,375,784,388	\$ 4,885,117,245
Company’s Proportionate Share	1,812,732	1,413,384	1,082,933

As of June 30, 2020	1% Decrease [5.25%]	Current Discount [6.25%]	1% Increase [7.25%]
Net Pension Liability	\$ 9,458,676,903	\$ 7,669,917,211	\$ 6,188,756,202
Company’s Proportionate Share	1,788,920	1,450,611	1,170,479

The discount rate determination does not use a municipal bond rate.

Payable to the Pension Plan

At December 31, 2021 and 2020, the Company reported a payable of \$13,122 and \$12,088 for the outstanding amount of contributions required for the years then ended. The amount represents the employee withholding and employer match for the last month of the years then ended.

**NORTH SHELBY WATER COMPANY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020**

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB PLAN

Insurance (OPEB) Plan Description – The Kentucky Public Pension Authority’s Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

Contributions

Members participating prior to July 1, 2003, pay a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009 and by 1.5% annually from July 1, 2009.

The amount of benefit paid by the Insurance Fund for members participating prior to July 1, 2003, are as follows:

Years of Service	Paid by Insurance Fund (%)
20+ years	100.00%
15-19+ years	75.00%
10-14+ years	50.00%
4-9+ years	25.00%
Less than 4 years	0.00%

For the fiscal years ended June 30, 2021 and 2020, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E), which is considered an OPEB asset.

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions (OPEB)

Per the Schedule of Employer Allocations and OPEB Amounts by Employer for Kentucky Retirement Systems, Reports for Postemployment Benefits Prepared as of June 30,

The actuarial methods and assumptions to determine the Total OPEB Liability and Net OPEB Liability are as follows:

Item	CERS June 30, 2021 Non-Hazardous	CERS June 30, 2020 Non-Hazardous
Determined by the Actuarial Valuation as of:	June 30, 2019	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013	July 1, 2008 - June 30, 2013
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay	Level Percent of Pay
Amortization Period:	30 Years, Closed period at June 30, 2019. Gains/Losses incurring after 2019, will be amortized over separate 20 year amortization bases.	25 Years, Closed
Payroll Growth Rate:	2.00%	2.00%
Investment Return:	6.25%	6.25%
Inflation:	2.30%	2.30%
Salary Increases:	3.30% to 10.30%, varies by service	3.30% to 11.55%, varies by service
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.	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
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 a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 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, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 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.	Board Certified Rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

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

The assumed increase in future health care costs, or trend assumptions was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plan's 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.

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date 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 generally accepted actuarial principles.

For financial reporting the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

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

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

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

The actuarial methods and assumptions used to determine the Total OPEB Liability and Net OPEB Liability are as follows:

Item	CERS June 30, 2021 Non-Hazardous	CERS June 30, 2020 Non-Hazardous
Inflation	2.30%	2.30%
Payroll Growth Rate	2.00%	2.00%
Salary Increases	3.30%-10.30% varies by service	3.05% Average
Investment Rate of Return	6.25%	6.25%
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 a period of 13 years.	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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.	PUB-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
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.	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.
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.	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.

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Discount Rate

The Insurance Plan single discount rate of 5.20% was used to measure the total OPEB liability as of June 30, 2021. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92% as reported in Fidelity Index’s “20-year Municipal GO AA Index”, as of June 30, 2021. The discount rate of 5.34% was used to measure the total OPEB liability as of June 30, 2020 and was based on the expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of June 30, 2020.

Implicit Employer Subsidy for non-Medicare retirees:

The fully-insured premiums KPPA 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.

The cost associated with the implicit employer subsidy is not currently being included in the calculation of the System’s actuarial determined contributions, and it is understood that any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Kentucky Public Pension Authority’s CAFR.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At December 31, 2021 and 2020 the Company reported a liability of \$424,280 and \$456,547, respectively.

The Company’s total payroll for the calendar year ended December 31, 2021 was \$599,795. Contributions were based on \$584,663 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2021 were \$30,868.

The Company’s total payroll for the calendar year ended December 31, 2020 was \$556,012. Contributions were based on \$521,354 (covered payroll). The total employer contributions to the Health Insurance Fund for the year ended December 31, 2020 were \$24,567.

All contributions were made as required.

The allocation of the employers’ proportionate share of the Net OPEB Liability and OPEB expense was determined using the employer’s actual contributions for the fiscal year ending June 30, 2021.

The Company’s contribution for the County Employee’s Retirement System’s (Insurance Plan) for the years ended June 30, 2021 and 2020 was 0.022162 percent and 0.018907 percent, respectively, of the System’s total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the years ended June 30, 2021 and 2020 was \$12,545 and \$9,501, respectively.

For the years ended December 31, 2021 and 2020, the Company recognized expense of \$54,729 and \$55,213, respectively. At December 31, 2021 and 2020 the Company reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 66,718	\$ 126,676	\$ 76,279	\$ 76,339
Change in Assumptions	112,485	395	79,412	483
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	54,159	4,073	7,765	5,917
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	21,376	87,749	24,490	9,316
Company Contributions Made Subsequent to the Net OPEB Measurement Date	17,214	-	13,296	-
Total	<u>\$ 271,952</u>	<u>\$ 218,893</u>	<u>\$ 201,242</u>	<u>\$ 92,055</u>

\$17,214 and \$13,296 reported as deferred outflows of resources related to OPEB arising from Company contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the years ended December 31, 2022 and 2021 respectively. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB expense. Amounts reported as deferred outflows of resources and deferred inflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended December 31, 2021:	Increase (Decrease) to OPEB Expense
2022	\$ 23,098
2023	12,994
2024	13,009
2025	(13,256)
	<u>\$ 35,845</u>

Year Ended December 31, 2020:	Increase (Decrease) to OPEB Expense
2021	\$ 25,050
2022	29,541
2023	20,938
2024	21,126
2025	(764)
	<u>\$ 95,891</u>

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 14 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE PLAN) (Continued)

Payable to the OPEB Health Insurance Plan

At December 31, 2021 and 2020, the District reported a payable of \$3,583 and \$2,981, respectively for the outstanding amount of contributions required for the years then ended. This amount represents the employee withholding and employer match for the last month of the years then ended.

Sensitivity of the District's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2021, calculated using the single discount rate of 5.20% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2021</u>	<u>1% Decrease [4.20%]</u>	<u>Current Discount [5.20%]</u>	<u>1% Increase [6.20%]</u>
Net OPEB Liability	\$ 2,628,525,378	\$ 1,914,449,967	\$ 1,328,432,699
District's Proportionate Share	582,534	424,280	294,407

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2021, calculated using the healthcare cost trend rate for the year ended June 30, 2021 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2021</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 1,378,176,465	\$ 1,914,449,967	\$ 2,561,740,477
District's Proportionate Share	305,431	424,280	567,733

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2020, calculated using the single discount rate of 5.34% as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2020</u>	<u>1% Decrease [4.34%]</u>	<u>Current Discount [5.34%]</u>	<u>1% Increase [6.34%]</u>
Net OPEB Liability	\$ 3,102,175,364	\$ 2,414,695,884	\$ 1,850,046,176
District's Proportionate Share	586,528	456,547	349,788

The following table presents the net other post-employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2020, calculated using the healthcare cost trend rate for the year ended June 30, 2020 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2020</u>	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 1,869,578,166	\$ 2,414,695,884	\$ 3,076,209,120
District's Proportionate Share	353,481	456,547	581,619

NORTH SHELBY WATER COMPANY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 15 – COMPENSATED ABSENCES

Vacation Days

Vacation is earned at rates varying one to twenty-four days per year depending on the length of service. During 2021, each employee was granted an additional two days of vacation as employee appreciation. A maximum of five vacation days may be carried over to the next year. At December 31, 2021, and 2020, the Water Company had accrued compensated absence liabilities of \$12,408 and \$11,785, respectively.

Sick Days

Sick leave accrues at the rate of twelve days per year and shall accumulate without limit. If and when the employee retires and resigns, there will be no pay for unused sick leave. At December 31, 2021, the Water Company had an unrecorded sick pay liability of \$186,372. At December 31, 2020, the Water Company had an unrecorded sick pay liability of \$158,605.

NOTE 16 – ECONOMIC DEPENDENCY

The Water Company purchases 100% of the water it sells from the following entities: Shelbyville Municipal Water, Frankfort Electric & Water Plant Board, and Louisville Water Company.

NOTE 17 – OPERATION AND MAINTENANCE CONTRACT

The Water Company furnishes managerial, meter reading, maintenance, meter installation, accounts receivable processing, and general office services for U.S. 60 Water District. The Company received \$379,035 and \$355,856 for these services for the years ended December 31, 2021 and 2020, respectively. There was a receivable due from U.S. 60 Water District in the amount of \$37,816 and \$54,029 at December 31, 2021 and 2020, respectively. The operation and maintenance agreement was updated in 2020.

NOTE 18 – FUNDS HELD FOR FUTURE LINES AND CONTRIBUTED CAPITAL

The Water Company collects funds from developers for their allocable cost of line extensions. The amount is calculated based on the size of the line and cost of construction. No amounts were held for future lines at December 31, 2021 or 2020.

NOTE 19 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

In March, 2020 significant steps were taken by the federal and state governments to limit the effect of the COVID-19 virus. The effect of executive governmental orders to discontinue the collection of penalties and enforcement of cutoff policies during 2020 and the reinstatement of these charges in 2021 have been reflected in this report. Kentucky is in the process of "reopening" the economy. Impacts that this and future decisions may have on the financial position of the Company is unknown at this time.

North Shelby Water Company plans to replace the St. Johns water storage tank. The new tank will be substantially larger than the tank currently in use and North Shelby Water Company will be able to use a substantially higher percentage of the water stored in the tank. The build is expected to take approximately one year. North Shelby Water Company accepted a bid for construction of the tank of \$1,600,000 in May, 2022. Total construction cost is estimated to be \$2,125,000 and is expected to begin in late 2022.

North Shelby Water Company expects to continue to replace standard meters with radio read meters. As of December 31, 2021, approximately 375 of 1,000 meters had been replaced as part of the second phase of the radio read replacement project. The meter replacements are being completed in three phases, with each phase costing approximately \$510,000. As of August 12, 2022, approximately 1,800 meters remain to be replaced system wide. The Company does not anticipate borrowing funds currently.

Management has considered subsequent events through the date of this report August 12, 2022, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2021.

NORTH SHELBY WATER COMPANY
SCHEDULE OF THE WATER COMPANY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water Company's proportion of the net pension liability (asset) %	0.022168%	0.018913%	0.018664%	0.018370%	0.018680%	0.018834%	0.01822%	0.017846%
Water Company's proportionate share of the net pension liability (asset)	\$ 1,413,384	\$ 1,450,611	\$ 1,312,647	\$ 1,104,599	\$ 1,093,398	\$ 927,293	\$ 783,379	\$579,000
Water Company's covered payroll (calendar year)	\$ 584,663	\$ 521,354	\$ 475,018	\$ 457,698	\$ 458,377	\$ 448,684	\$ 433,851	\$426,930
Water Company's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	241.74%	278.24%	276.34%	241.34%	238.54%	206.67%	180.56%	135.62%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.45%	53.54%	53.3%	55.5%	59.97%	62.60%

Calculations of the Company's proportion of the net pension liability (%) and proportionate share of the net pension liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and Pension Amounts by Employer for the fiscal years ended June 30, shown.

Company payroll is reported for its' covered calendar years ending December 31, 2014 through 2021.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Inflation	2.30%	2.30%	2.30%	2.30%	2.30%	3.25%	3.25%	3.50%
Salary Increases	3.30%-10.30%	3.30%-10.30%	3.30%-10.30%	3.05%	3.05%	4.00%	4.00%	4.50%
Investment Rate of Return	6.25%	6.25%	6.25%	6.25%	6.25%	7.50%	7.50%	7.75%

The mortality table(s) used in the determination of the total pension liability as of June 30, 2019 - 2021 were as follows. The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. 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 the 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.

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

The assumed rates of retirement, withdrawal, and disability were based on an actuarial valuation performed as of June 30, 2019.

See accompanying notes to the basic financial statements

**NORTH SHELBY WATER COMPANY
SCHEDULE OF THE WATER COMPANY'S CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM**

For Years Ended December 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually (Employer) required contributions	\$ 118,409	\$ 99,633	\$ 81,560	\$ 70,327	\$ 64,825	\$ 59,977	\$ 56,189
Contributions in relation to the contractually required contributions	118,409	99,633	81,560	70,327	64,825	59,977	56,189
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Company's covered payroll	\$ 584,663	\$ 521,354	\$ 475,018	\$ 457,698	\$ 458,377	\$ 448,684	\$ 433,851
Contributions as a percentage of covered payroll	20.25%	19.11%	17.17%	15.37%	14.14%	13.37%	12.95%

The Water Company's contributions above include only contributions to the County Employees Retirement System Pension Fund. GASB 68 requires the Water Company to present the above information for the CERS pension for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

NORTH SHELBY WATER COMPANY
SCHEDULE OF THE WATER COMPANY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
Years Ended December 31

	2021	2020	2019	2018	2017
Water Company's proportion of the net OPEB liability (asset) %	0.022162%	0.018907%	0.018659%	0.018137%	0.018680%
Water Company's proportionate share of the net OPEB liability (asset)	\$ 424,280	\$ 456,547	\$ 313,836	\$ 322,001	\$ 375,532
Water Company's covered payroll (Calendar Year)	\$ 584,663	\$ 521,354	\$ 475,018	\$ 457,698	\$ 458,377
Water Company's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	72.57%	87.57%	66.07%	70.35%	81.93%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	51.67%	60.44%	57.62%	52.4%

Calculations of the Company's proportion of the net OPEB liability (%) and proportionate share of the net OPEB liability (\$) are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, shown.

GASB 75 requires the Company to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

Water Company covered payroll is reported for its calendar year.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018, as documented in the report titled, *Kentucky Retirement Systems 2018 Actuarial Experience Study for the period ending June 30, 2018*.

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

Actuarial Methods and Assumptions for Determining Net OPEB Liability:

	2021	2020	2019	2018	2017
Payroll Growth Rate	2.0%	2.0%	2.0%	2.0%	2.0%
Salary Increases	3.30%-10.30% varies by service	3.30%-10.30% varies by service	3.30%-10.30% varies by service	3.05% Average	3.05% Average
Investment Rate of Return	6.25%	6.25%	6.25%	6.25%	6.25%
Inflation	2.3%	2.3%	2.3%	2.3%	2.3%
Healthcare Trend Rates: Pre-65	Initial trend at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.	Initial trend at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare Trend Rates: Post-65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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.	PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.	PUB-2010 General Mortality Table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
Post-Retirement	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.	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.	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.	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females).	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females).
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 is used for the period after disability.	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 is used for the period after disability.	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 is used for the period after disability.	RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.	RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

See accompanying notes to the basic financial statements

**NORTH SHELBY WATER COMPANY
SCHEDULE OF THE WATER COMPANY'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Years Ended December 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually (Employer) required contributions	\$ 30,868	\$ 24,567	\$ 26,467	\$ 22,821	\$ 21,980	\$ 20,335	\$ 19,051
Contributions in relation to the contractually required contributions	\$ 30,868	\$ 24,567	26,467	22,821	21,980	20,335	19,051
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Company's covered payroll	\$ 584,663	\$ 521,354	\$ 475,018	\$ 457,698	\$ 458,377	\$ 448,684	\$ 433,851
Contributions as a percentage of covered payroll	5.28%	4.71%	5.57%	4.99%	4.80%	4.53%	4.39%

The Water Company's contributions above include only the contributions to the County Employees Retirement System Insurance Fund.

GASB 75 requires the Water Company to present the above information for the CERS OPEB Plan for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

To the Board of Directors of the
North Shelby Water Company
Bagdad, Kentucky 40003

We have audited 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, the financial statements of North Shelby Water Company as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise North Shelby Water Company's basic financial statements, and have issued our report thereon dated August 12, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Shelby Water Company'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Shelby Water Company's internal control. Accordingly, we do not express an opinion on the effectiveness of North Shelby Water Company's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Shelby Water Company'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*.

North Shelby Water Company's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, P.S.C
Certified Public Accountants
Carrollton, Kentucky

August 12, 2022

**NORTH SHELBY WATER COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021 and 2020**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of North Shelby Water Company were prepared in accordance with GAAP.
2. Two deficiencies in internal control disclosed during the audit of the financial statements are reported in the 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*. Items 2021-001 and 2021-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of North Shelby Water Company, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES

2021-001 SIZE OF ENTITY, CROSS-TRAINING, CHECKING PROCEDURES AND DOCUMENTATION

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative functions. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2020 as Item 2020-001.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

These limitations may affect the ability to timely record, process, summarize and report financial data. Debt service and depreciation transfers were not reviewed timely. Short-lived asset accounts have not been set up. The general ledger accounts receivable balance was not balanced properly to the underlying subsidiary ledger transactions throughout the year.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff, implement checking processes and increase review procedures. Periodic reviews of debt service covenants and requirements should also occur. Software reports should be identified that will provide necessary information to ensure proper transaction reporting and balancing of customer accounts receivable outstanding to the general ledger.

**NORTH SHELBY WATER COMPANY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2021**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

**2021-001 SIZE OF ENTITY, CROSS-TRAINING, CHECKING PROCEDURES AND DOCUMENTATION
(Continued)**

VIEWS OF RESPONSIBLE OFFICIALS:

We concur with the recommendation. There have been changes in reports available through the Company's billing software. Efforts will continue in identifying reports to improve transaction reporting and balancing to the general ledger. Efforts have been made to cross train employees and improve transaction documentation. The Company will continue its efforts to improve training and review associated procedures.

**2021-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CONDITION:

Company financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2020 as Item 2020-002.

CAUSE:

The draft accrual basis financial statements and disclosures are prepared during the audit process. The entries are entered into the Company's general ledger/financial reports.

EFFECT:

Management engaged auditor assistance to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

Company management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

VIEWS OF RESPONSIBLE OFFICIALS:

The outsourcing of this service is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

COMPLIANCE

None