NORTH SHELBY WATER COMPANY

BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2023 and 2022

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

Years Ended December 31, 2023 and 2022

TABLE OF CONTENTS

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of North Shelby Water Company as of and for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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 Opinion

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.

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 25 through 31 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 October 21, 2024, 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, P.S.C.
Certified Public Accountants
Carrollton, Kentucky

October 21, 2024

NORTH SHELBY WATER COMPANY
STATEMENT OF NET POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets:		
Cash	$ 1,722,920	$ 3,170,759
Accounts Receivable (Net)	371,617	315,996
Other Receivables	119,681	39,081
Inventory	601,852	425,182
Prepaid Expenses	53,172	45,675
Total Current Assets	$ 2,869,242	$ 3,996,693
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	$ 1,369,859	$ 1,313,338
Capital Assets (Net)	18,592,890	17,648,198
Total Noncurrent Assets	$ 19,962,749	$ 18,961,536
Total Assets	$ 22,831,991	$ 22,958,229
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	$ 293,388	$ 364,037
Attributable to OPEB Plan	158,027	235,540
Total Deferred Outflows of Resources	$ 451,415	$ 599,577
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 182,420	$ 203,971
Accounts Payable - Capital	24,321	220,208
Accrued Compensated Absences	13,603	13,979
Accrued Employee Benefits	10,669	16,206
Accrued Payroll Taxes/Employee Withholding	8,387	12,270
Utility Tax Payable	8,721	8,753
Sales Tax Payable	3,439	1,060
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	9,719	8,593
Accrued Interest Payable - Notes Payable	60,467	62,205
Notes Payable	177,289	171,938
Total Current Liabilities	$ 499,035	$ 719,183
Noncurrent Liabilities:		
Notes Payable	$ 7,554,689	$ 7,731,976
Net Pension Liability	1,354,525	1,522,141
Net OPEB Liaiblity	(29,146)	415,484
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	327,634	327,005
Total Noncurrent Liabilities	$ 9,207,702	$ 9,996,606
Total Liabilities	$ 9,706,737	$ 10,715,789
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	$ 315,754	$ 230,397
Attributable to OPEB Plan	529,789	230,891
Total Deferred Inflows of Resources	$ 845,543	$ 461,288
NET POSITION		
Net Investment in Capital Assets	$ 10,860,912	$ 9,744,284
Restricted for Capital Projects	130,816	128,318
Restricted for Debt Service	852,331	795,810
Unrestricted	887,067	1,712,317
Total Net Position	$ 12,731,126	$ 12,380,729

NORTH SHELBY WATER COMPANY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	$ 3,714,583	$ 3,544,355
Total Charges for Services	$ 3,714,583	$ 3,544,355
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	$ 94,172	$ 92,099
Building Rental Income	30,000	30,000
Equipment Rental Income	71,281	59,330
Contractual Services	172,753	178,762
Miscellaneous	14,308	10,261
Total Other Charges and Miscellaneous	$ 382,514	$ 370,452
Total Operating Revenues	$ 4,097,097	$ 3,914,807
Operating Expenses:		
Accounting and Collecting Labor	$ 385,558	$ 381,935
Commissioner Fees	39,300	39,900
Contractual Service	17,196	18,180
Employee Benefits	194,267	182,695
Employee Benefits - OPEB Expense	(58,103)	57,337
Employee Retirement Expense	129,867	181,583
Insurance	87,845	70,745
Maintenance of Mains	139,114	122,135
Miscellaneous	5,882	19,941
Office Supplies and Expense	123,634	104,733
Operating Labor	105,308	117,559
Other Interest Expense	12,137	8,363
Payroll Taxes	49,017	47,437
Professional Services	44,545	46,967
Purchased Water	1,481,230	1,386,724
Purchased Power	96,096	94,147
Regulatory Fees	5,097	5,644
Transportation Expense	70,398	71,235
Utilities	29,256	31,817
Depreciation Expense	754,312	763,204
Total Operating Expenses	$ 3,711,956	$ 3,752,281
Operating Income (Loss)	$ 385,141	$ 162,526
Nonoperating Revenue (Expense):		
Investment Income	$ 117,575	$ 37,923
Interest Expense	(227,267)	(232,508)
Gain (Loss) on Disposition of Fixed Assets	23,373	-
Total Nonoperating Revenues (Expense)	$ (86,319)	$ (194,585)
Income (Loss) Before Contributions	$ 298,822	$ (32,059)
Capital Contributions	51,575	66,164
Change in Net Position	$ 350,397	$ 34,105
Net Position - Beginning of Year	12,380,729	12,346,624
Net Position - End of Year	$ 12,731,126	$ 12,380,729

See accompanying notes to the basic financial statements.

NORTH SHELBY WATER COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 3,963,852	$ 3,961,064
Payments to Suppliers	(2,779,488)	(2,394,648)
Payments to Employees	(457,479)	(450,515)
Other Receipts (Payments)	(14,894)	(385)
Net Cash Provided (Used) by Operating Activities	$ 711,991	$ 1,115,516
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	$ 51,575	$ 66,164
Purchases of Capital Assets	(1,914,643)	(578,363)
Proceeds Sale of Capital Assets	43,125	-
Principal Paid on Capital Debt	(171,936)	(166,761)
Interest Paid on Capital Debt	(229,005)	(234,181)
Net Cash Provided (Used) by Capital and Related Financing Activities	$ (2,220,884)	$ (913,141)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Received (Invested) in Certificates of Deposits	$ (8,457)	$ (539)
Interest Received	117,575	37,923
Net Cash Provided (Used) by Investing Activities	$ 109,118	$ 37,384
Net Increase (Decrease) in Cash and Cash Equivalents	$ (1,399,775)	$ 239,759
Balances-Beginning of the Year	4,140,413	3,900,654
Balances-End of the Year	$ 2,740,638	$ 4,140,413

	Balances Per December 31, 2023 Statement of Net Position	Balances Per December 31, 2023 Statement of Cash Flows
Unrestricted Cash	$ 1,721,530	$ 1,721,530
Restricted Cash	1,019,108	1,019,108
Restricted Certificates of Deposit	352,141	-
Total Cash and Cash Equivalents, End of Year	$ 3,092,779	$ 2,740,638

	Balances Per December 31, 2022 Statement of Net Position	Balances Per December 31, 2022 Statement of Cash Flows
Unrestricted Cash	$ 3,170,759	$ 3,170,759
Restricted Cash	969,654	969,654
Restricted Certificates of Deposit	343,684	-
Total Cash and Cash Equivalents, End of Year	$ 4,484,097	$ 4,140,413

(Continued)

NORTH SHELBY WATER COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ 385,141	$ 162,526
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	754,312	763,204
Pension & OPEB Expense	(79,829)	78,042
Change in Assets and Liabilities:		
Receivables, Net	(55,621)	38,359
Other Receivables	(80,600)	(1,265)
Inventories	(176,670)	21,058
Prepaid Expenses	(7,497)	(5,192)
Accounts Payable	(21,551)	37,832
Accrued Expenses	(6,323)	11,717
Customer Meter Deposits Payable	629	9,235
Net Cash Provided by Operating Activities	$ 711,991	$ 1,115,516

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

North Shelby Water Company had $24,321 outstanding accounts payable or retainage payable related to capital projects in process at December 31, 2023.

North Shelby Water Company had $220,208 outstanding accounts payable or retainage payable related to capital projects in process at December 31, 2022.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The North Shelby Water Company is a rural water company serving approximately 5,400 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.

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 16 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 $51,575 and $59,863 were received by the Water Company for the years ended December 31, 2023 and 2022. Customer contributions of $0 and $6,301 were received by the Water Company for the year ended December 31, 2023 and 2022, respectively, for capital contributions.

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.

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. 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, 2023, and December 31, 2022.

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
	Monthly Requirement	Required Accumulated Balance at December 31, 2023	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	61,800	61,800	1,667
2013 Note	840	80,640	100,800	3,335
2014 Note	1,345	96,840	161,000	3,333
2015 Note	875	42,000	105,000	4,153
		$ 453,360	$ 600,680	$ 12,488

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, 2023, and 2022. A separate short lived asset account has not been created as of December 31, 2023.

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, 2023, and 2022, $671,826 and $664,357 respectively, of the Company's deposits were covered by federal depository insurance and $2,438,480 and $3,838,224 were collateralized by securities held by the pledging financial institution's agent or trust department in the Company's name. As of December 31, 2023, and 2022, all of the Company's deposits were collateralized by securities and therefore not exposed to custodial risk.

NOTE 3 – CASH AND INVESTMENTS (Continued)

At December 31, 2023 and 2022, the Water Company's deposits were as follows:

December 31, 2023

Type of Deposits	Total Bank Balance	Total Carrying Value
Demand Deposits	$ 2,066,691	$ 2,048,664
Time and Savings	1,043,615	1,043,615
Total Deposits	$ 3,110,306	$ 3,092,279

December 31, 2022

Type of Deposits	Total Bank Balance	Total Carrying Value
Demand Deposits	$ 3,504,346	$ 3,497,264
Time and Savings	998,235	986,333
Total Deposits	$ 4,502,581	$ 4,483,597

Reconciliation to Statement of Net Position:

	December 31, 2023	December 31, 2022
Unrestricted Cash,	$ 1,722,920	$ 3,170,759
Restricted Cash, Including Time Deposits	1,369,859	1,313,338
Less Cash on Hand	(500)	(500)
	$ 3,092,279	$ 4,483,597

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	December 31, 2023	December 31, 2022
Debt Service Accounts	$ 267,940	$ 256,582
Depreciation Accounts	644,858	601,433
Construction Accounts	130,816	128,318
Customer Deposits	326,245	327,005
Total	$ 1,369,859	$ 1,313,338

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of $62,761 and $59,407 at December 31, 2023 and 2022, 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 $243,686 and $220,351 is included in accounts receivable at December 31, 2023 and 2022, respectively.

NOTE 6 – OTHER RECEIVABLES

Other receivables at December 31, 2023 and 2022, respectively, included $95,360 and $39,081 receivable for the joint operations contract between North Shelby Water Company and U.S. 60 Water District of Shelby and Franklin Counties, respectively. Also at December 31, 2023, $24,321 was receivable from Kentucky Department of Transportation. See Note 18 for details.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2023 and 2022, was as follows:

	Balance at January 1, 2023	Additions	Disposals	Balance at December 31, 2023
Land & Land Rights	$ 166,433	$ -	$ -	$ 166,433
Structures & Improvements	814,736	-	-	814,736
Distribution System	24,818,072	339,245	(20,935)	25,136,382
Machinery & Equipment	3,241,388	56,075	(76,169)	3,221,294
Construction in Process	16,135	1,416,041	(92,605)	1,339,571
Totals at Historical Cost	$ 29,056,764	$ 1,811,361	$ (189,709)	$ 30,678,416
Less: Accumulated Depreciation				
Structures & Improvements	$ (304,752)	$ (33,189)	$ -	$ (337,941)
Distribution System	(8,930,310)	(527,181)	20,935	(9,436,556)
Machinery & Equipment	(2,173,504)	(193,942)	56,417	(2,311,029)
Total Accumulated Depreciation	$ (11,408,566)	$ (754,312)	$ 77,352	$ (12,085,526)
Capital Assets, Net	$ 17,648,198	$ 1,057,049	$ (112,357)	$ 18,592,890

	Balance at January 1, 2022	Additions	Disposals	Balance at December 31, 2022
Land & Land Rights	$ 150,421	$ 16,012	$ -	$ 166,433
Structures & Improvements	805,236	9,500	-	814,736
Distribution System	24,155,396	674,533	(11,857)	24,818,072
Machinery & Equipment	3,192,558	48,830	-	3,241,388
Construction in Process	-	16,135	-	16,135
Totals at Historical Cost	$ 28,303,611	$ 765,010	$ (11,857)	$ 29,056,764
Less: Accumulated Depreciation				
Structures & Improvements	$ (271,722)	$ (33,030)	$ -	$ (304,752)
Distribution System	(8,429,397)	(512,770)	11,857	(8,930,310)
Machinery & Equipment	(1,956,101)	(217,403)	-	(2,173,504)
Total Accumulated Depreciation	$ (10,657,220)	$ (763,203)	$ 11,857	$ (11,408,566)
Capital Assets, Net	$ 17,646,391	$ 1,807	$ -	$ 17,648,198

Included under the Water Company's capital assets at December 31, 2023 and 2022, were $1,704,993 and $1,541,322 of fully depreciated assets, respectively. Land and land rights, and construction in process are capital assets not being depreciated.

Depreciation expense aggregated $754,312 and $763,203 in 2023 and 2022, 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, 2023 and 2022, accrued interest on customer deposits was $9,719 and $8,593, respectively.

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

NOTE 9 – LONG TERM LIABILITIES

As of December 31,2023 and 2022, the long-term liabilities payable consisted of the following:

Direct Placement Debt

Notes Payable:

	December 31, 2023	December 31, 2022
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.	$ 141,609	$ 152,098
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.	170,741	178,686
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.	365,198	379,522
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.	927,766	946,005
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.	1,872,961	1,908,513
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.	2,507,550	2,557,695
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.	1,746,152	1,781,395
Total Notes Payable	$ 7,731,978	$ 7,903,914
Current Portion	$ 177,289	$ 171,938
Noncurrent Portion	7,554,689	7,731,976
Total Notes Payable	$ 7,731,978	$ 7,903,914

Accrued Compensated Absences:

All Classified as Current	$ 13,603	$ 13,979

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.

NOTE 9 – LONG TERM LIABILITIES (Continued)

Changes in Long-term Liabilities

The following is a summary of changes in long-term liabilities for the years ended December 31, 2023 and 2022.

December 31, 2023

	Balance at January 1, 2023	Additions	Repayments	Balance at December 31, 2023	Current Portion
Notes Payable/Direct Borrowing	$ 7,903,914	$ -	$ 171,936	$ 7,731,978	$ 177,289
Accrued Compensated Absences	13,979	62,799	63,175	13,603	13,603
Total Long-Term Liabilities	$ 7,917,893	$ 62,799	$ 235,111	$ 7,745,581	$ 190,892

December 31, 2022

	Balance at January 1, 2022	Additions	Repayments	Balance at December 31, 2022	Current Portion
Notes Payable/Direct Borrowing	$ 8,070,675	$ -	$ 166,761	$ 7,903,914	$ 171,938
Accrued Compensated Absences	12,408	66,118	64,547	13,979	13,979
Total Long-Term Liabilities	$ 8,083,083	$ 66,118	$ 231,308	$ 7,917,893	$ 185,917

The annual requirements for all notes payable outstanding at December 31, 2023 are as follows:

Due	Principal	Interest	Total
2024	$ 177,289	$ 223,653	$ 400,942
2025	182,823	218,119	400,942
2026	188,544	212,398	400,942
2027	194,463	206,479	400,942
2028	200,583	200,359	400,942
2029-2033	1,100,531	902,311	2,002,842
2034-2038	1,181,749	725,917	1,907,666
2039-2043	1,188,321	547,729	1,736,050
2044-2048	1,295,456	379,463	1,674,919
2049-2053	1,437,814	190,329	1,628,143
2054-2057	584,405	25,246	609,651
	$ 7,731,978	$ 3,832,003	$ 11,563,981

NOTE 10 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2023 and 2022 was $239,404 and $240,871, respectively.

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION

	December 31, 2023	December 31, 2022
Restricted for Capital Projects:		
Monies Restricted for Construction	$ 130,816	$ 128,318
Total Restricted for Capital Projects	$ 130,816	$ 128,318
Restricted for Debt Service:		
RECD Notes Payable		
Cash	$ 912,798	$ 858,015
Less: Accrued Interest Payable	(60,467)	(62,205)
Total Restricted for Debt Service	$ 852,331	$ 795,810

NOTE 11 – FUND EQUITY – RESTRICTED NET POSITION (Continued)

Unrestricted net position was increased by $79,829 and reduced by $78,042 for the years ended December 31, 2023 and 2022, 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:

	2023	2022
Increase (Decrease) in Deferred Outflows of Resources	$ (148,162)	$ 7,386
(Increase) Decrease in Deferred Inflows of Resources	(384,255)	14,533
(Increase) Decrease in Net Pension Liability	167,616	(108,757)
(Increase) Decrease in Net OPEB Liability	444,630	8,796
Net Decrease in Unrestricted Net Position	$ 79,829	$ (78,042)

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of $3,353 and $9,020 at December 31, 2023 and 2022, 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

NOTE 14 – RETIREMENT PLAN

The North Shelby Water Company is a participating employer of the Commonwealth of Kentucky's County Employees' Retirement System (CERS) for non-hazardous employees administered by the Kentucky Public Pension Authority (KPPA). Under the provisions of Kentucky Revised Statute 78.782 and 61.645, the KPPA oversees the administration and operation of the CERS. The CERS Board has nine trustees, three elected by the membership and six appointed by the Governor. The CERS issues a publicly available financial report that includes financial statements, required supplementary information, and detailed information about CERS' fiduciary net position. These financial statements may be downloaded from the KPPA website, kyret.ky.gov.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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.

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.

Contributions – For the year ended December 31, 2023, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

NOTE 14 – RETIREMENT PLAN (Continued)

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. For the year ended December 31, 2023, participating employers contributed 26.79% through June 30th and 23.34% thereafter, of each non-hazardous employee's creditable compensation, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and the insurance trust. The insurance trust is more fully described in Note 15. For the year ended December 31, 2023, plan members contributed 23.40% through June 30th and 23.34% thereafter to the pension for non-hazardous job classifications. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. 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. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended December 31, 2023, the Company contributed $141,477 or 100% of the required contribution for non-hazardous job classifications.

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.

Benefits – 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 and 4 years of service
	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

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. Reduced benefits are based on factors of both components. Participating employees become eligible to receive the health insurance benefit after earning at least 180 months of service. 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. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and $10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

NOTE 14 – RETIREMENT PLAN (Continued)

Prior to July 1, 2009, cost-of-living (COLA) 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 1.50%. Senate Bill 2 passed during the 2013 Regular Session states COLAs will only be granted in the future if the Systems' Boards determine that assets of the Systems are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA. Cost-of-living adjustments are provided at the discretion of the Kentucky General Assembly. Kentucky Revised Statute 78.5518 governs how COLAs may be granted for members of CERS. No COLA has been granted since July 1, 2011.

Actuarial Methods and Assumptions to Determine the Total Pension Liability and the Net Pension Liability – For financial reporting, the actuarial valuation as of June 30, 2022, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions on May 9, 2023. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022", and include a change in the investment return assumption from 6.25% to 6.50%. The Total Pension Liability as of June 30, 2023 is determined using these updated assumptions. Additionally, House Bill 506 passed during the 2023 legislative session adjusted the minimum required separations period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances under the plan. This is a relatively small change for future retirees in the non-hazardous plan. As the minimum separation period was previously three months in almost every circumstance, the total pension liability as of June 30, 2023 included a 1% increase in the rate of retirement for each of the first two years a non-hazardous member becomes retirement eligible under the age of 65, in order to reflect a shift in the retirement pattern. The total pension liability as of June 30, 2023 for the non-hazardous plan is determined using these updated benefit provisions. There have been no other plan provision changes that would materially impact the total pension liability since June 30, 2022. The total pension liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.50%

In determining the total pension liability as of June 30, 2023, the mortality table used for active members was a PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2020 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010.

Actuarial Methods and Assumptions to Determine the Actuarial Determined Contributions for Fiscal Year 2023 - The following actuarial methods and assumptions, were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 Years, closed period at June 30, 2019, *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

NOTE 14 – RETIREMENT PLAN (Continued)

Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

The retiree mortality is System-specific mortality table based on mortality experience from 2013-2018 projected with the ultimate rates from MP-2014 mortality improvement scale using base year of 2019.

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 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 6.50% 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.

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 are developed for each asset class. The ranges are combined by weighing the expected future real rate of return by the target asset allocation percentage. The target asset allocation (applies to all pension and insurance funds maintained by CERS) and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below. The current long-term inflation assumption is 2.50% per annum.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income		
Core Fixed Income	10.00%	2.45%
Specialty Credit/High Yield	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	**100.00%**	**5.75%**
Long Term Inflation Assumption		**2.50%**
Expected Nominal Return for Portfolio		**8.25%**

NOTE 14 – RETIREMENT PLAN (Continued)

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, 2023, the Company reported a liability of $1,354,525 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2023 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial principles. 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, 2023, the Company's proportion was 0.021110 percent, which was an increase of 0.000054 percent from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the Company recognized pension expense of $129,867. At December 31, 2023 and 2022, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2023		December 31, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 70,121	$ 3,681	$ 1,627	$ 13,555
Change in Assumptions	-	124,143	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	5,291	23,126	81,728	48,746
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	146,327	164,804	207,118	168,096
Company Contributions Made Subsequent to the NPL Measurement Date	71,649	-	73,564	-
Total	$ 293,388	$ 315,754	$ 364,037	$ 230,397

$71,649 and $73,564 reported as deferred outflows of resources related to pensions arising from Company contributions made after the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2024, and December 31, 2023, 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:

Year Ended December 31, 2023	Increase (Decrease) to Pension Expense
2024	$ (60,365)
2025	(50,774)
2026	30,238
2027	(13,114)
	$ (94,015)

NOTE 14 – RETIREMENT PLAN

Discount Rate – The projection of cash flows used to determine the discount rate of 6.50% assumes that CERS fund receives the required employer contributions each future year, as determined by the current funding policy established by Statute, as amended by House Bill 362, (passed during the 2018 legislative session) over the remaining 29 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

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 year ended June 30, 2023, calculated using the discount rates of 6.50%], 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, 2023	1% Decrease [5.50%]	Current Discount [6.50%]	1% Increase [7.50%]
Net Pension Liability	$ 8,101,229,535	$ 6,416,508,407	$ 5,016,441,878
Company's Proportionate Share	1,710,170	1,354,525	1,058,971

Payable to the Pension Plan - The Company reported a payable of $13,147 as of December 31, 2023, for the outstanding amount of contributions required to the pension plan required for the year then ended. The payable includes both the pension and insurance contribution allocation.

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 14, the Company participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

The CERS Nonhazardous Insurance Funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting. OPEB contributions are determined by the CERS Board and are required by the employers, and the employees' contributions are set by Kentucky Revised Statute 78.5536(3)(b)(1) and 61.702(3)(b)(1). KPPA recognized employer and employee contributions to the plans through June 30, 2023. OPEB expenses are recognized as the benefits come due for the plan, which includes payments made to the Department of Employee Insurance (DEI), and Humana Inc. for OPEB costs incurred for the fiscal year ended June 30, 2023. KPPA contracts with DEI and Humana Inc to administer the claims. DEI administers retiree claims for retirees who are non-Medicare eligible, and Humana administers retiree claims for members who are Medicare eligible. Since the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Contributions – As more fully described in Note 14, plan members contribute to CERS for non-hazardous job classifications. For the year ended December 31, 2023, the employer's contribution was 3.39% through June 30th and 0.00% thereafter to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. 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 the actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of the Kentucky Public Pension Authority are financed through employer contributions and investment earnings.

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

The total OPEB liability as of June 30, 2023 is determined using these updated benefit provisions. There were no other material plan provision changes.

For the year ended December 31, 2023, the Company contributed $10,116 or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before July 1, 2003
	Insurance Eligibility	10 years of service credit required
	Benefit	Set percentage of single coverage health insurance Based on service credit accrued at retirement
Tier 1	Participation date	Before September 1, 2008 but after July 1, 2003
	Insurance Eligibility	10 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, Increased annually
Tier 2	Participation date	After September 1, 2008 and before December 31, 2013
	Insurance Eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, Increased annually
Tier 3	Participation date	After December 31, 2013
	Insurance Eligibility	15 years of service credit required
	Benefit	Set dollar amount based on service credit accrued, Increased annually

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability – For financial reporting, the actuarial valuation as of June 30, 2023, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions on May 9, 2023, and June 5, 2023, respectively. These assumptions are documented in the report titled "2022 Actuarial Experience Study for the Period Ending June 30, 2022". Additionally, the discount rate used to calculate the total OPEB liability increased from 5.70% to 5.93% for the non-hazardous plan. Additionally, House Bill 506 passed during the 2023 legislative session adjusted the minimum required separations period before a retiree may become reemployed and continue to receive their retirement allowance to one month for all circumstances under the plan. This is a relatively small change for future retirees in the non-hazardous plan. As the minimum separation period was previously three months in almost every circumstance, the total OPEB liability as of June 30, 2023 included a 1% increase in the rate of retirement for each of the first two years a non-hazardous member becomes retirement eligible under the age of 65, in order to reflect a shift in the retirement pattern. The total OPEB liability as of June 30, 2023, is determined using these updated assumptions. The total OPEB liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Inflation	2.50%
Payroll Growth Rate	2.00%
Salary Increases	3.30% - 10.30%, varies by service
Investment Rate of Return	6.50%
Healthcare Trend Rate	
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. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

In determining the total OPEB liability as of June 30, 2023, the mortality table used for active members was PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2020 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 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. The mortality table used for the disabled retired members was PUB-2010 Disabled Mortality table, with a rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2023.

Actuarial Methods and Assumptions to Determine the Actuarial Determined OPEB Contributions for Fiscal Year 2023 - The following actuarial methods and assumptions, were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2023:

Valuation Date	June 30, 2021
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 Years, closed period at June 30, 2019, *Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases*
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	
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. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At December 31, 2023, the Company reported a liability/(asset) of ($29,146) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022 and was rolled forward using generally accepted actuarial procedures. The Company's proportion of the net OPEB liability was based on a projection of the Company's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2023, the Company's proportionate share was 0.021110 percent, which was an increase of 0.000057 percent from its proportion measured as of June 30, 2022.

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

For the year ended December 31, 2023, the Company recognized OPEB expense of ($58,103). At December 31, 2023, the Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2023		December 31, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 20,319	$ 413,842	$ 41,822	$ 95,280
Change in Assumptions	57,357	39,972	65,712	54,146
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	25,806	14,665	39,982	20,961
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	54,545	61,310	77,367	60,504
Company Contributions Made Subsequent to the Net OPEB Measurement Date	-	-	10,657	-
Total	$ 158,027	$ 529,789	$ 235,540	$ 230,891

$0 and $10,657 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, 2024 and 2023 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, 2023	Increase (Decrease) to OPEB Expense
2024	$ (85,925)
2025	(111,036)
2026	(94,996)
2027	(79,805)
	$ (371,762)

Discount Rate – The single discount rate used to calculate the total OPEB liability within the plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2022, valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs. There were no other material assumption changes. A single discount rate of 5.93% was used to measure the total OPEB liability as of June 30, 2023, for the CERS Nonhazardous plan. This is an increase of 0.23% from the 5.70% discount rate used to measure the total OPEB liability as of June 30, 2022, for the CERS Nonhazardous plan. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86% as reported in Fidelity Index's "20-year Municipal GO AA Index", as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of the fiscal year ending June 30, 2023, the plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plan's actuarially determined contributions and any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in Note 14.

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of the Company'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, 2023, calculated using the single discount rate of 5.93%], 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:

As of June 30, 2023	1% Decrease [4.93%]	Current Discount [5.93%]	1% Increase [6.93%]
Net OPEB Liability	$ 259,098,308	$ (138,066,692)	$ (470,643,914)
Company's Proportionate Share	54,696	(29,146)	(99,353)

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, 2023, calculated using the healthcare cost trend rate for the year ended June 30, 2023], 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:

As of June 30, 2023	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ (442,527,812)	$ (138,066,692)	$ 235,935,140
Company's Proportionate Share	(93,418)	(29,146)	49,806

NOTE 16 – COMPENSATED ABSENCES

Vacation Days

Vacation is earned at rates varying one to twenty-four days per year depending on the length of service. A maximum of five vacation days may be carried over to the next year. At December 31, 2023, and 2022, the Water Company had accrued compensated absence liabilities of $13,603 and $13,979, 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, 2023, the Water Company had an unrecorded sick pay liability of $232,658. At December 31, 2022, the Water Company had an unrecorded sick pay liability of $213,824.

NOTE 17 – ECONOMIC DEPENDENCY

The Water Company purchases 100% of the water it sells from the following entities: Shelbyville Municipal Water (22.1%), Frankfort Electric & Water Plant Board (15.0%), and Louisville Water Company (62.9%).

NOTE 18 – 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 $424,841 and $401,498 for these services for the years ended December 31, 2023 and 2022, respectively. There was a receivable due from U.S. 60 Water District in the amount of $95,360 and $39,081 at December 31, 2023 and 2022, respectively. At December 31, 2023, two months of billings were outstanding.

NOTE 19 – 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, 2023 or 2022.

NOTE 20 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

North Shelby Water Company is in the process of replacing 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. Construction is in the final stage. Completion occured in January 2024.

The Water Company has been awarded Cleaner Water Program (CWP) Grants through the Kentucky Infrastructure Authority in the amounts of $113,084 from the Franklin County allocation and $650,000 from the Shelby County allocation. The funding from Franklin County will be used to replace radio read meters with the Water Company contributing $101,916 towards the project. Additionally, Franklin County has committed $100,000 of American Rescue Plan Act (ARPA) funding towards the project. The Franklin County project is currently in the bid process. The funding from Shelby County will be used for the replacement of conventional customer meters with radio read meters that is expected to be completed in the calendar year 2024.

Management has considered subsequent events through the date of this report October 21, 2024, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2023.

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

Reporting Year End (Measurement Date)	2023 (June 30, 2023)	2022 (June 30, 2022)	2021 (June 30, 2021)	2020 (June 30, 2020)	2019 (June 30, 2019)	2018 (June 30, 2018)	2017 (June 30, 2017)	2016 (June 30, 2016)	2015 (June 30, 2015)	2014 (June 30, 2014)
Water Company's proportion of the net pension liability %	0.021110%	0.021056%	0.022168%	0.018913%	0.018664%	0.018370%	0.018680%	0.018834%	0.018220%	0.017846%
Water Company's proportionate share of the net pension liability (asset)	$ 1,354,525	$ 1,522,141	$ 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 employee payroll (calendar year)	$ 605,388	$ 598,815	$ 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 of its covered employee payroll	223.74%	254.19%	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	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.3%	55.5%	59.97%	62.60%

See accompanying notes to the required supplementary information and 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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contributions	$ 141,477	$ 138,359	$ 118,409	$ 99,633	$ 81,560	$ 70,327	$ 64,825	$ 59,977	$ 56,189
Contributions in relation to the contractually required contributions	141,477	138,359	118,409	99,633	81,560	70,327	64,825	59,977	56,189
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Water Company's covered payroll (calendar year)	$ 605,388	$ 598,815	$ 584,663	$ 521,354	$ 475,018	$ 457,698	$ 458,377	$ 448,684	$ 433,851
Contributions as a percentage of covered payroll	23.37%	23.11%	20.25%	19.11%	17.17%	15.37%	14.14%	13.37%	12.95%

Notes: The above schedule will present 10 years of histroical data, once such data is available.

See accompanying notes to the required supplementary information and notes to the basic financial statements

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

Reporting Year End (Measurement Date)	2023 (June 30, 2023)	2022 (June 30, 2022)	2021 (June 30, 2021)	2020 (June 30, 2020)	2019 (June 30, 2019)	2018 (June 30, 2018)	2017 (June 30, 2017)
Water Company's proportion of the net OPEB liability (asset) %	0.021110%	0.021053%	0.022162%	0.018907%	0.018659%	0.018137%	0.018680%
Water Company's proportionate share of the net OPEB liability (asset)	$ (29,146)	$ 415,484	$ 424,280	$ 456,547	$ 313,836	$ 322,001	$ 375,532
Water Company's covered employee payroll (Calendar Year)	$ 605,388	$ 598,815	$ 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 of its covered payroll	-4.81%	69.38%	72.57%	87.57%	66.07%	70.35%	81.93%
Plan fiduciary net position as a percentage of the total OPEB liability	104.23%	60.95%	62.91%	51.67%	60.44%	57.62%	52.4%

Notes: The above schedule will present 10 years of histroical data, once such data is available.

See accompanying notes to the required supplementary information and 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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contributions	$ 10,116	$ 22,518	$ 30,868	$ 24,567	$ 26,467	$ 22,821	$ 21,980	$ 20,335	$ 19,051
Contributions in relation to the contractually required contributions	10,116	22,518	30,868	24,567	26,467	22,821	21,980	20,335	19,051
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Water Company's covered payroll (calendar year)	$ 605,388	$ 598,815	$ 584,663	$ 521,354	$ 475,018	$ 457,698	$ 458,377	$ 448,684	$ 433,851
Contributions as a percentage of covered payroll	1.67%	3.76%	5.28%	4.71%	5.57%	4.99%	4.80%	4.53%	4.39%

Notes: The above schedule will present 10 years of histroical data, once such data is available.

See accompanying notes to the required supplementary information and notes to the basic financial statements

1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of the Company's Contributions (Pension) – County Employees Retirement System, exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of the Company's Contributions (OPEB) – County Employees Retirement System.

Payroll

The Company's covered payroll reported on the Schedule of the Company's Proportionate Share of the Net Pension Liability and the Schedule of the Company's Proportionate Share of the Net OPEB Liability is for the Company's calendar year and differs from the CERS fiscal year.

2. Changes in Assumptions

December 31, 2023 – Pension & OPEB

The following changes in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- Pre-65 initial healthcare trend rate 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. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement.
- Post-65 initial healthcare trend rate starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of valuation and were incorporated into the liability measurement.
-

December 31, 2022 – Pension & OPEB

The following changes in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- Pre-65 initial healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
- Post-65 initial healthcare trend rate starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of valuation and were incorporated into the liability measurement. Additionally, "Not to Exceed" 2022 Medicare premiums were provided, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.

December 31, 2021 – Pension & OPEB

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 because of a duty related disability.

The following changes in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- Salary Increases of 3.30% to 10.30%, varies by service
- 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
- Pre-65 initial healthcare trend rate 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.
- Post-65 initial healthcare trend rate 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 valuation and were incorporated into the liability measurement.

2. Changes in Assumptions (Continued)

December 31, 2020 – Pension & OPEB

The following changes in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- Pre-65 initial healthcare trend rate starting at 7.0% 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.
- Post-65 initial healthcare trend rate 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 valuation and were incorporated into the liability measurement.

December 31, 2019 – Pension & OPEB

The following changes in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for OPEB:

- Payroll Growth Rate 2.0%
- Investment Rate of Return 6.25%
- Inflation 2.30%
- Salary Increases of 3.30% to 11.55%
- Pre-65 initial healthcare trend rate starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
- Post-65 initial healthcare trend rate starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

December 31, 2018 – Pension & OPEB

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.

The following assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for OPEB:

- Payroll Growth Rate 4.0%
- Investment Rate of Return 7.50%
- Inflation 3.25%
- Salary Increases 4.0%, average
- Mortality: RP-2000 Combined Mortality Table, Projected to 2013 with Scale BB (set back 1 year for females)
- Pre-65 initial healthcare trend rate starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
- Post-65 initial healthcare trend rate starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

2. Changes in Assumptions (Continued)

December 31, 2017 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Payroll Growth Rate 2.0%
- Investment Rate of Return 6.25%
- Inflation 2.3%

December 31, 2016 – Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

December 31, 2015 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- Investment Rate of Return 7.50%
- Inflation 3.25%
- Wage Inflation 0.75%
- Salary Increases 4.0%
- Mortality:
  - Active Members:RP-2000 Combined Mortality Table, projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
  - Healthy Retired Members & Beneficiaries: RP-2000 Combined Mortality Table, projected with Scale BB to 2013 (set back 1 year for females).
  - Disabled Members: RP-2000 Combined Disability Mortality Table, projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

December 31, 2014 – Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

December 31, 2013 – Pension

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- Payroll Growth Assumption Rate 4.50%
- Investment Rate of Return 7.75%
- Inflation 3.50%
- Mortality: Rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other Members.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA
Jerilyn P. Zapp, CPA
Jeffery C. Woods, CPA
Susan A. Dukes, CPA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Shelby Water Company as of and for the year ended December 31, 2023, 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 October 21, 2024.

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 2023-001 and 2023-002 that we consider to be material weaknesses.

Report on 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

October 21, 2024

NORTH SHELBY WATER COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2023

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 2023-001 and 2023-002 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

2023-001 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, 2022 as Item 2022-001.

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.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

MATERIAL WEAKNESSES (Continued)

2023-001 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.

2023-002 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, 2022 as Item 2022-002.

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