NORTH SHELBY WATER COMPANY

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

At December 31, 2025 and 2024

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

Years Ended December 31, 2025 and 2024

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RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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, 2025 and 2024, 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, 2025 and 2024, 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 24 through 29 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 July 29, 2026, 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

July 29, 2026

NORTH SHELBY WATER COMPANY
STATEMENT OF NET POSITION
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current Assets:		
Cash	$ 2,561,352	$ 1,782,155
Accounts Receivable (Net)	385,204	338,667
Other Receivables	91,916	502,694
Interest Receivable	3,069	8,987
Inventory	374,187	699,586
Prepaid Expenses	56,882	63,545
Total Current Assets	$ 3,472,610	$ 3,395,634
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	$ 1,503,058	$ 1,439,598
Capital Assets (Net)	19,111,608	18,839,118
Total Noncurrent Assets	$ 20,614,666	$ 20,278,716
Total Assets	$ 24,087,276	$ 23,674,350
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	$ 227,094	$ 212,343
Attributable to OPEB Plan	114,605	92,380
Total Deferred Outflows of Resources	$ 341,699	$ 304,723
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 258,404	$ 241,725
Accounts Payable - Capital	55,493	34,569
Accrued Compensated Absences	13,047	12,817
Accrued Employee Benefits	12,635	10,498
Accrued Payroll Taxes/Employee Withholding	11,507	10,005
Utility Tax Payable	8,778	9,560
Sales Tax Payable	2,370	3,433
Current Liabilities Payable from Restricted Assets:		
Funds Held for Future Lines	-	14,747
Accrued Interest Payable - Customer Deposits	10,246	10,451
Accrued Interest Payable - Notes Payable	56,783	58,661
Notes Payable	188,544	182,823
Total Current Liabilities	$ 617,807	$ 589,289
Noncurrent Liabilities:		
Notes Payable	$ 7,183,324	$ 7,371,867
Net OPEB Liability (Asset)	20,978	(34,494)
Net Pension Liability	1,214,694	1,191,360
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	339,853	336,217
Total Noncurrent Liabilities	$ 8,758,849	$ 8,864,950
Total Liabilities	$ 9,376,656	$ 9,454,239
DEFERRED INFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	$ 187,122	$ 266,157
Attributable to OPEB Plan	272,868	383,624
Total Deferred Inflows of Resources	$ 459,990	$ 649,781
NET POSITION		
Net Investment in Capital Assets	$ 11,739,740	$ 11,284,428
Restricted for Capital Projects	133,514	132,283
Restricted for Debt Service	972,908	912,436
Unrestricted	1,746,167	1,545,906
Total Net Position	$ 14,592,329	$ 13,875,053

See accompanying notes to the basic financial statements.

NORTH SHELBY WATER COMPANY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	$ 3,881,595	$ 3,812,844
Total Charges for Services	$ 3,881,595	$ 3,812,844
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	$ 86,945	$ 74,218
Building Rental Income	48,000	48,000
Equipment Rental Income	61,722	81,071
Contractual Services	141,423	196,775
Miscellaneous	13,758	10,735
Total Other Charges and Miscellaneous	$ 351,848	$ 410,799
Total Operating Revenues	$ 4,233,443	$ 4,223,643
Operating Expenses:		
Accounting and Collecting Labor	$ 466,947	$ 434,692
Commissioner Fees	36,500	35,000
Contractual Service	24,708	20,054
Employee Benefits	179,290	176,027
Employee Benefits - OPEB Expense	(77,509)	(85,866)
Employee Retirement Expense	70,615	15,466
Insurance	98,752	103,936
Maintenance of Mains	212,899	179,127
Miscellaneous	15,429	12,820
Office Supplies and Expense	147,624	142,118
Operating Labor	139,956	129,229
Other Interest Expense	10,943	11,553
Payroll Taxes	57,918	54,840
Professional Services	50,124	43,178
Purchased Water	1,570,872	1,461,089
Purchased Power	95,106	92,812
Regulatory Fees	6,653	6,492
Transportation Expense	46,834	62,734
Utilities	23,521	27,313
Depreciation Expense	744,070	735,008
Total Operating Expenses	$ 3,921,252	$ 3,657,622
Operating Income (Loss)	$ 312,191	$ 566,021
Nonoperating Revenue (Expense):		
Investment Income	$ 98,107	$ 115,895
Interest Expense	(216,243)	(221,847)
Gain (Loss) on Disposition of Fixed Assets	(33,127)	(20,824)
Total Nonoperating Revenues (Expense)	$ (151,263)	$ (126,776)
Income (Loss) Before Contributions	$ 160,928	$ 439,245
Capital Contributions	556,348	704,682
Change in Net Position	$ 717,276	$ 1,143,927
Net Position - Beginning of Year	13,875,053	12,731,126
Net Position - End of Year	$ 14,592,329	$ 13,875,053

See accompanying notes to the basic financial statements.

NORTH SHELBY WATER COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 4,179,362	$ 4,335,609
Payments to Suppliers	(2,395,056)	(2,648,525)
Payments to Employees	(568,036)	(529,878)
Other Receipts (Payments)	(9,646)	(9,203)
Net Cash Provided (Used) by Operating Activities	$ 1,206,624	$ 1,148,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	$ 961,714	$ 266,816
Purchases of Capital Assets	(1,053,763)	(1,025,945)
Proceeds Sale of Capital Assets	25,000	34,133
Principal Paid on Capital Debt	(182,822)	(177,288)
Interest Paid on Capital Debt	(218,121)	(223,653)
Net Cash Provided (Used) by Capital and Related Financing Activities	$ (467,992)	$ (1,125,937)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Received (Invested) in Certificates of Deposits	$ (11,948)	$ (8,736)
Interest Received	104,025	106,908
Net Cash Provided (Used) by Investing Activities	$ 92,077	$ 98,172
Net Increase (Decrease) in Cash and Cash Equivalents	$ 830,709	$ 120,238
Balances-Beginning of the Year	2,860,876	2,740,638
Balances-End of the Year	$ 3,691,585	$ 2,860,876

	Balances Per December 31, 2025 Statement of Net Position	Balances Per December 31, 2025 Statement of Cash Flows
Unrestricted Cash	$ 2,561,352	$ 2,561,352
Restricted Cash	1,130,233	1,130,233
Restricted Certificates of Deposit	372,825	-
Total Cash and Cash Equivalents, End of Year	$ 4,064,410	$ 3,691,585

	Balances Per December 31, 2024 Statement of Net Position	Balances Per December 31, 2024 Statement of Cash Flows
Unrestricted Cash	$ 1,782,155	$ 1,782,155
Restricted Cash	1,078,721	1,078,721
Restricted Certificates of Deposit	360,877	-
Total Cash and Cash Equivalents, End of Year	$ 3,221,753	$ 2,860,876

(Continued)

NORTH SHELBY WATER COMPANY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2025 and 2024

		2025		2024
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	$	312,191	$	566,021
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Cash Flows Reported in Other Categories:				
Depreciation Expense		744,070		735,008
Pension & OPEB Expense		(147,961)		(217,583)
Change in Assets and Liabilities:				
Receivables, Net		(46,537)		32,950
Other Receivables		(9,335)		69,600
Inventories		325,399		(97,734)
Prepaid Expenses		6,663		(10,373)
Accounts Payable		16,679		59,305
Accrued Expenses		1,819		2,226
Customer Meter Deposits Payable		3,636		8,583
Net Cash Provided by Operating Activities	$	1,206,624	$	1,148,003

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

North Shelby Water Company had $55,493 outstanding accounts payable or retainage payable related to capital projects in process at December 31, 2025.

North Shelby Water Company had $34,569 outstanding accounts payable or retainage payable related to capital projects in process at December 31, 2024.

See accompanying notes to the basic financial statements.

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The North Shelby Water Company is a rural water company serving approximately 5,500 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.

Postemployment 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 $65,750 and $50,954 were received by the Water Company for the years ended December 31, 2025, and 2024. Customer contributions of $80,127 and $201,115 were received by the Water Company for the year ended December 31, 2025, and 2024, respectively, for capital contributions. The Water Company recognized $197,387 and $452,613 of funding from Kentucky Infrastructure Authority Cleaner Water Grant for the Shelby County Service Area Radio Read Meter Replacement Project for the years ended December 31, 2025 and 2024, respectively. For the year ended December 31, 2025, the Water Company received $100,000 from Franklin County Fiscal Court for local ARPA funds and $113,084 of funding from Kentucky Infrastructure Authority Cleaner Water Grant for the Franklin County Extensions and Improvements Project.

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, 2025, and December 31, 2024.

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, 2025	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	100,800	100,800	3,335
2014 Note	1,345	129,120	161,000	3,333
2015 Note	875	63,000	105,000	4,153
		$ 526,800	$ 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, 2025, and 2024. A separate short-lived asset account has not been created as of December 31, 2025.

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, 2025, and 2024, $680,020 and $671,871 respectively, of the Company's deposits were covered by federal depository insurance and $3,425,625 and $2,560,375 were collateralized by securities held by the pledging financial institution's agent or trust department in the Company's name. As of December 31, 2025, and 2024, all of the Company's deposits were either covered by federal depository insurance or collateralized by securities held in the Water Company's name. Accordingly, the Water Company was not exposed to custodial risk.

NOTE 3 – CASH AND INVESTMENTS (Continued)

At December 31, 2025 and 2024, the Water Company's deposits were as follows:

December 31, 2025

Type of Deposits	Total Bank Balance	Total Carrying Value
Demand Deposits	$ 2,942,440	$ 2,900,955
Time and Savings	1,163,205	1,163,205
Total Deposits	$ 4,105,645	$ 4,064,160

December 31, 2024

Type of Deposits	Total Bank Balance	Total Carrying Value
Demand Deposits	$ 2,128,865	$ 2,117,872
Time and Savings	1,103,381	1,103,381
Total Deposits	$ 3,232,246	$ 3,221,253

Reconciliation to Statement of Net Position:

	December 31, 2025	December 31, 2024
Unrestricted Cash,	$ 2,561,352	$ 1,782,155
Restricted Cash, Including Time Deposits	1,503,058	1,439,598
Less Cash on Hand	(250)	(500)
	$ 4,064,160	$ 3,221,253

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	December 31, 2025	December 31, 2024
Debt Service Accounts	$ 296,011	$ 287,417
Depreciation Accounts	733,680	683,681
Construction Accounts	133,514	132,283
Customer Deposits	339,853	336,217
Total	$ 1,503,058	$ 1,439,598

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of $90,136 and $87,679 at December 31, 2025 and 2024, 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 $298,411 and $237,676 is included in accounts receivable at December 31, 2025 and 2024, respectively. This increased in 2025 as a result of the increase in unbilled receivables from historical rates due to system wide radio read meters that allow billing to occur more timely.

NOTE 6 – OTHER RECEIVABLES

Other receivables at December 31, 2025 and 2024, respectively, included $59,416 and $50,081 receivable for the joint operations contract between North Shelby Water Company and U.S. 60 Water District of Shelby and Franklin Counties, respectively. Also included in other receivables at December 31, 2025 and 2024, was $32,500 and $452,613, receivable from Kentucky Infrastructure Authority, respectively.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2025 and 2024, was as follows:

	Balance at January 1, 2025	Additions	Disposals	Balance at December 31, 2025
Land & Land Rights	$ 166,433	$ -		$ 166,433
Structures & Improvements	814,736	-		814,736
Distribution System	26,756,036	1,319,493	(276,477)	27,799,052
Machinery & Equipment	3,291,117	140,811	(101,948)	3,329,980
Construction in Process	382,816	785,095	(1,167,911)	-
Totals at Historical Cost	$ 31,411,138	$ 2,245,399	$ (1,546,336)	$ 32,110,201
Less: Accumulated Depreciation				
Structures & Improvements	$ (371,130)	$ (16,207)		$ (387,337)
Distribution System	(9,717,640)	(554,549)	215,550	(10,056,639)
Machinery & Equipment	(2,483,250)	(173,314)	101,947	(2,554,617)
Total Accumulated Depreciation	$ (12,572,020)	$ (744,070)	$ 317,497	$ (12,998,593)
Capital Assets, Net	$ 18,839,118	$ 1,501,329	$ (1,228,839)	$ 19,111,608

	Balance at January 1, 2024	Additions	Disposals	Balance at December 31, 2024
Land & Land Rights	$ 166,433	$ -	$ -	$ 166,433
Structures & Improvements	814,736	-	-	814,736
Distribution System	25,136,382	1,923,125	(303,471)	26,756,036
Machinery & Equipment	3,221,294	69,823	-	3,291,117
Construction in Process	1,339,571	913,462	(1,870,217)	382,816
Totals at Historical Cost	$ 30,678,416	$ 2,906,410	$ (2,173,688)	$ 31,411,138
Less: Accumulated Depreciation				
Structures & Improvements	$ (337,941)	$ (33,189)	$ -	$ (371,130)
Distribution System	(9,436,556)	(529,598)	248,514	(9,717,640)
Machinery & Equipment	(2,311,029)	(172,221)	-	(2,483,250)
Total Accumulated Depreciation	$ (12,085,526)	$ (735,008)	$ 248,514	$ (12,572,020)
Capital Assets, Net	$ 18,592,890	$ 2,171,402	$ (1,925,174)	$ 18,839,118

Included under the Water Company's capital assets at December 31, 2025 and 2024, were $3,716,899 and $3,645,617 of fully depreciated assets, respectively. Land and land rights, and construction in process are capital assets not being depreciated.

Depreciation expense aggregated $744,070 and $735,008 in 2025 and 2024, 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, 2025 and 2024, accrued interest on customer deposits was $10,246 and $10,451, 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, 2025 and 2024, the long-term liabilities payable consisted of the following:

Direct Borrowing Debt

Notes Payable:

	December 31, 2025	December 31, 2024
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.	$ 118,829	$ 130,531
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.	153,763	162,439
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.	334,643	350,248
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.	889,349	908,888
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.	1,798,489	1,836,298
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.	2,403,662	2,456,216
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.	1,673,133	1,710,070
Total Notes Payable	$ 7,371,868	$ 7,554,690
Current Portion	$ 188,544	$ 182,823
Noncurrent Portion	7,183,324	7,371,867
Total Notes Payable	$ 7,371,868	$ 7,554,690

Accrued Compensated Absences:

	December 31, 2025	December 31, 2024
All Classified as Current	$ 13,047	$ 12,817

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, 2025 and 2024.

December 31, 2025

	Balance at January 1, 2025	Additions	Repayments	Balance at December 31, 2025	Current Portion
Notes Payable/Direct Borrowing	$ 7,554,690	$ -	$ 182,822	$ 7,371,868	$ 188,544
Accrued Compensated Absences	12,817	230	- *	13,047	13,047
Total Long-Term Liabilities	$ 7,567,507	$ 230	$ 182,822	$ 7,384,915	$ 201,591

*The change in the compensated absences liability is presented as a net change.

December 31, 2024

	Balance at January 1, 2024	Additions	Repayments	Balance at December 31, 2024	Current Portion
Notes Payable/Direct Borrowing	$ 7,731,978	$ -	$ 177,288	$ 7,554,690	$ 182,823
Accrued Compensated Absences	13,603	58,738	59,524	12,817	12,817
Total Long-Term Liabilities	$ 7,745,581	$ 58,738	$ 236,812	$ 7,567,507	$ 195,640

The annual requirements for all notes payable outstanding at December 31, 2025 are as follows:

Due	Principal	Interest	Total
2026	188,544	212,398	400,942
2027	194,462	206,480	400,942
2028	200,583	200,359	400,942
2029	206,915	194,027	400,942
2030	213,466	187,476	400,942
2031-2035	1,132,610	832,144	1,964,754
2036-2040	1,220,730	654,240	1,874,970
2041-2045	1,194,027	480,893	1,674,920
2046-2050	1,367,953	306,967	1,674,920
2051-2055	1,318,863	112,070	1,430,933
2056	133,715	3,176	136,891
	$ 7,371,868	$ 3,390,230	$ 10,762,098

NOTE 10 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2025 and 2024 was $227,186 and $233,400, respectively.

NOTE 11 –RESTRICTED NET POSITION

	December 31, 2025	December 31, 2024
Restricted for Capital Projects:		
Monies Restricted for Construction	$ 133,514	$ 132,283
Total Restricted for Capital Projects	$ 133,514	$ 132,283
Restricted for Debt Service:		
RECD Notes Payable		
Cash	$ 1,029,691	$ 971,097
Less: Accrued Interest Payable	(56,783)	(58,661)
Total Restricted for Debt Service	$ 972,908	$ 912,436

NOTE 11 – RESTRICTED NET POSITION (Continued)

Unrestricted net position was increased by $147,961 and $217,583 for the years ended December 31, 2025 and 2024, 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:

	2025	2024
Increase (Decrease) in Deferred Outflows of Resources	$ 36,976	$ (146,692)
(Increase) Decrease in Deferred Inflows of Resources	189,791	195,762
(Increase) Decrease in Net Pension Liability	(23,334)	163,165
(Increase) Decrease in Net OPEB Liability/(Asset)	(55,472)	5,348
Net Increase/(Decrease) in Unrestricted Net Position	$ 147,961	$ 217,583

NOTE 12 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of $15,006 and $12,484 at December 31, 2025 and 2024, 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 Water Company participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement benefits to all regular full-time employees employed in positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. Retirement benefits may be extended to beneficiaries under certain circumstances. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority (KPPA) administers the CERS. The CERS issues a publicly available report that includes financial statements, required supplementary information and detailed information about CERS' fiduciary net position. These reports may be obtained at www.kyret.ky.gov.

Plan Benefits – CERS provides for retirement, disability, and death benefits to system members. Employees are vested in the plan after five years' service. Retirement benefits may be extended to beneficiaries of members under certain circumstances.

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

TIER 1

Participation date	Before September 1, 2008
Unreduced retirement	27 years of service or 65 years old and 1 month of service
Reduced retirement	At least 5 years of service and 55 years old or 25 years of service and any age

For Tier 1 members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 2.2% times the average of the five highest years of compensation. For members whose participation began on or after August 1, 2004, the benefit factor is 2.0%. Benefits are reduced by varying percentages based on years of age or service from full retirement criteria. If a member retires with less than four years of service credit, the member's benefit is equal to the actuarially equivalent of two times their member contribution balance with interest.

NOTE 14 – RETIREMENT PLAN (Continued)

TIER 2

Participation date	On or after September 1, 2008, but before January 1, 2014
Unreduced retirement	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal to 87+
Reduced retirement	At least 10 years of service and 60 years old

For Tier 2 members, the monthly benefit is the following multiplier based on service credit at retirement multiplied by final average compensation, multiplied by years of service:

Service	Multiplier
10 years or less	1.10%
10-20 years	1.30%
20-26 years	1.50%
26-30 years	1.75%
Over 30 Years	2.00%

Final compensation is calculated by taking the average of the last five complete years of compensation.

TIER 3

Participation date	On or after January 1, 2014
Unreduced retirement	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal to 87+
Reduced retirement	Not available

Plan members in Tier 3 participate in and 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 contribute 5% (nonhazardous) of their monthly creditable compensation which is deposited into their account and an additional 1% which is deposited to an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see 105 KAR1:420), which is not refundable. Tier 3 members are also credited with an employer pay credit in the amount of 4% (nonhazardous) of the member's monthly creditable compensation. The employer pay credit amount is deducted from the total employer contribution rate paid on the member's monthly creditable compensation. If a vested (60 months of service) member terminates employment and applies to take a refund, the member is entitled to the members contributions (less HIC) plus employer pay credit plus interest (for both employee contributions and employer pay). If a non-vested (less than 60 months) member terminates employment and applies to take a refund, the member is entitled to receive employee contributions (less HIC) plus interest (on employee contributions only).

Interest is also paid into the Tier 3 member's account. The account currently earns 4% interest credit on the member's accumulated account balance as of June 30 of the previous year. The member's account may be credited with additional interest if the five-year Geometric Average Net Investment Return (GANIR) exceeded 4%. If the member was actively employed and participating in the fiscal year, and if the GANIR for the previous five years exceeded 4%, then the member's account will be credited with 75% of the returns over 4% on the account balance as of June 30 of the previous year (Upside Sharing Interest). The upside sharing interest for FY 2025 was 8.42% for the CERS Nonhazardous plan.

Cost of Living Adjustment (COLA) – Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature authorizes on a biennial basis and either (i) the system is over 100% funded or (ii) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions – For the year ended December 31, 2025, plan members were required to contribute 5% of wages for nonhazardous 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. 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 5% (Nonhazardous) of their monthly creditable compensation, which is deposited into their account, and an additional 1%, which is deposited to an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see 105 KAR1:420), which is not refundable.

NOTE 14 – RETIREMENT PLAN (Continued)

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 the 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 actuarial basis adopted by the Board.

For the year ended December 31, 2025, participating employers contributed 19.71% through June 30th and 18.62% thereafter, of each nonhazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. Of these determined contributions rates, 19.71% and 0.00% (through June 30th) and 18.62% and 0.00% (thereafter) was contributed to the Pension and OPEB Funds, respectively. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

The Water Company contributed $140,408 for the year ended December 31, 2025, or 100% of the required contribution for nonhazardous job classifications.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2025, the Water Company reported a liability of $1,214,694 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2024 and was rolled forward using generally accepted actuarial procedures. The Water Company's proportion of the net pension liability was based on a projection of the Water Company's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2025, the Water Company's proportion was 0.0218929 percent, which was an increase of 0.001908 percent from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the Water Company recognized pension expense of $70,615. At December 31, 2025, the Water Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 40,270	-
Change in Assumptions	-	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	72,042	20,831
Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	44,828	166,291
Company Contributions Made Subsequent to the NPL Measurement Date	69,954	-
Total	$ 227,094	$ 187,122

NOTE 14 – RETIREMENT PLAN (Continued)

The $69,954 of deferred outflows of resources resulting from the Water Company's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2025, will be recognized as an increase/(decrease) in pension expense as follows:

Year Ended December 31,		
2026	$	44,715
2027		(14,464)
2028		(39,469)
2029		(20,764)
	$	(29,982)

Actuarial Assumptions – The total pension liability in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Payroll Growth	2.00%
Salary increases	3.30% to 10.30%, varies by service
Investment rate of return	6.50%, net of Plan investment expense, including inflation

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 retired (non-disabled) 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. These mortality assumptions were adopted in 2023.

The actuarial assumption used in the June 30, 2025 actuarial valuation were adopted for first use in the June 30, 2023 actuarial valuations and are based on the experience study conducted through June 30, 2022. The total pension liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025. There have been no assumption, method or plan provision changes that would materially impact the total pension liability since June 30, 2024.

Discount Rate – The discount rate used to measure the total pension liability was 6.50 percent. The single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined employer contribution rate of projected compensation for each future year, calculated in accordance with the current funding policy.

The provisions of House Bill 362 (passed during the 2018 legislative session) are still in effect and limit the increases to the employer contribution rates of 12% over the prior fiscal year through June 30, 2028. However, contribution rates are not currently projected to increase by more than 12% in any given future year. Therefore, for the purpose of this calculation, the provisions of House Bill 362 do not impact the projected employer contributions.

The discount rate used to measure the total pension liability does not use a municipal bond rate. There was no change in the discount rate from the prior period.

NOTE 14 – RETIREMENT PLAN (Continued)

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The range were combined by weighting the expected future real rate of return by the target asset allocation percentage. As of June 30, 2025, the target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Fixed Income		
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected		
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Expected Real Return	**100.00%**	**4.24%**

Sensitivity of the Water Company's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the Water Company's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the Water Company's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

As of June 30, 2025	1% Decrease [5.50%]	Current Discount [6.50%]	1% Increase [7.50%]
Net Pension Liability	$ 7,356,758,276	$ 5,564,588,905	$ 4,086,006,415
Company's Proportionate Share	1,605,907	1,214,694	891,934

Payable to the Pension Plan - The Water Company reported a payable of $17,258, as of December 31, 2025, for the outstanding amount of legally required contributions to the pension plan for the year then ended. This payable includes both the pension and insurance contribution allocation.

NOTE 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in the previous note, the Water Company participates in the County Employees' Retirement System (CERS). In addition to the retirement benefits previously described, the plan provides post-retirement healthcare benefits to plan members (other postemployment benefits or OPEB). The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KPPA submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

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

Contributions – As more fully described in the previous note, plan members contribute to CERS for nonhazardous job classifications. For the year ended December 31, 2025, the employer's contribution was 0.00% to the insurance trust for nonhazardous 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. 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 5% (Nonhazardous) of their monthly creditable compensation, which is deposited into their account, and an additional 1%, which is deposited to an account created for payment of health insurance benefits under 26 USC Section 401(h) in the Insurance Fund (see 105 KAR1:420), which is not refundable.

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 the 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 actuarial basis adopted by the Board.

For the year ended December 31, 2025, participating employers contributed 19.71% through June 30th and 18.62% thereafter, of each nonhazardous employee's wages, which is equal to the actuarially determined rate set by the Board. The contributions are allocated to both the pension and insurance trust. Of these determined contributions rates, 19.71% and 0.00% (through June 30th) and 18.62% and 0.00% (thereafter) was contributed to the Pension and OPEB Funds, respectively. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended December 31, 2025, the Water Company contributed $0, or 100% of the required contribution for nonhazardous job classifications to the Insurance Fund.

Benefits – The amount of benefit paid by the Insurance Fund is based on years of service. For members who began participating prior to July 1, 2003, a percentage of the contribution rate is paid based on years of service with 100% of the contribution rate being paid with 20 years of service.

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum benefit are as follows:

Service	Paid by Insurance Fund
20+ years	100.0%
15-19 years	75.0%
10-14 years	50.0%
4-9 years	25.0%
Less than 4 years	0.0%

Since the passage of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits have been calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on or after July 1, 2003, earn $10 per month for insurance benefits at retirement for every year of earned service.

House Bill 1 (2008 Kentucky General Assembly) changed the minimum vesting requirement for participation in the health insurance plan to 15 years for members whose participation began on or after September 1, 2008. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statutes 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The amount of benefit paid by the Insurance Fund is based on years of service. For members participating on or after July 1, 2003, the dollar amounts of benefit per year of service for nonhazardous members was $14.63.

The Insurance Plan pays 100% of the contribution rate for hospital and medical insurance premiums for the spouse and dependents of members who die as a result of an act in the line of duty or from a duty-related injury.

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2025, the Water Company reported a liability of $20,978 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2024 and was rolled forward using generally accepted actuarial procedures. The Water Company's proportion of the net OPEB liability was based on a projection of the Water Company's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The Water Company's proportionate share at June 30, 2025 was 0.021842 percent, which was an increase of 0.001901 percent from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the Water Company recognized negative OPEB expense of $77,509. At December 31, 2025, the Water Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 68,038	$ 180,346
Change in Assumptions	13,992	12,011
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	15,969	16,397
Difference Between Projected and Actual Investment Earnings on Insurance Plan Investments	16,606	64,114
Company Contributions Made Subsequent to the Net OPEB Measurement Date	-	-
Total	$ 114,605	$ 272,868

There were no deferred outflows of resources resulting from the Water Company's contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as an increase/(decrease) in OPEB expense as follows:

Year Ended December 31		
2026	$	(92,133)
2027		(76,556)
2028		5,039
2029		5,387
	$	(158,263)

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

Actuarial Assumptions – The total OPEB liability in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Nonhazardous

Inflation	2.50%
Salary increases	3.30 to 10.30%, varies by service
Investment rate or return	6.50%, net of Plan investment expense, including inflation
Payroll Growth	2.00% for all plans
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.80% at January 1, 2025, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 8.50% at January 1, 2025, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement.

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 retired (non-disabled) 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. These mortality assumptions were adopted in 2023.

The actuarial assumption used in the June 30, 2025 actuarial valuation were adopted for first use in the June 30, 2023 actuarial valuations and are based on the experience study conducted through June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2024) to the plan's fiscal year ending June 30, 2025.

The discount rate used to measure the total OPEB liability as of June 30, 2025, increased from 5.99% to 6.26% for the nonhazardous plan. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2024 valuation process and was updated to better reflect the plan's anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in pre-Medicare and Medicare healthcare costs. The Total OPEB Liability as of June 30, 2025 was determined using these updated assumptions.

Senate Bill 10 passed during the 2025 legislative session and increased the insurance benefit for members who began participation on or after July 1, 2003 to $40 a month for nonhazardous CERS service effective January 1, 2026. This increase is only payable when a member is not eligible for Medicare benefits and only if they have met certain service thresholds at retirement. Additionally, this legislation extended the required member contribution to CERS members hired on or after July 1, 2003 but prior to September 1, 2008. There have been no other plan provision changes that would materially impact the total OPEB liability since June 30, 2024.

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

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The range were combined by weighting the expected future real rate of return by the target asset allocation percentage. As of June 30, 2025, the target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	45.00%	4.15%
Private Equity	8.00%	7.90%
Fixed Income		
Core Fixed Income	13.00%	2.70%
Specialty Credit	20.00%	3.83%
Cash	2.00%	1.25%
Inflation Protected		
Real Estate	5.00%	4.75%
Real Return	7.00%	5.20%
Expected Real Return	**100.00%**	**4.24%**

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2025, was 6.26% for the nonhazardous plan. The discount rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 5.20%, as reported in Bond Buyer's "20-Bond GO Index" as of June 30, 2025. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all 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 to determine the total OPEB liability. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate assumed that employers would contribute the actuarially determined employer contribution rate of projected compensation for each future year, calculated in accordance with the current funding policy.

Sensitivity of the Water Company's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the Water Company's proportionate share of the net OPEB liability calculated using the discount rate as well as what the Water Company's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1- percentage-point higher than the current rate:

As of June 30, 2025	1% Decrease [5.26%]	Current Discount [6.26%]	1% Increase [7.26%]
Net OPEB Liability (Asset)	$ 576,284,675	$ 96,042,447	$ (308,154,245)
Company's Proportionate Share	125,872	20,978	(67,307)

Sensitivity of the Water Company's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the Water Company's proportionate share of the net OPEB liability/asset calculated using healthcare cost trend rates that are 1-percentage-point lower or 1- percentage-point higher than the current healthcare cost trend rates:

As of June 30, 2025	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability (Asset)	$ (221,954,039)	$ 96,042,447	$ 468,302,089
Company's Proportionate Share	(48,479)	20,978	102,287

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

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

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, 2025, and 2024, the Water Company had accrued compensated absence liabilities of $13,047 and $12,817, respectively.

Sick Days

Sick leave accrues at the rate of twelve days per year and shall accumulate without limit. At December 31, 2025 and 2024, accumulated unused sick leave, valued at current salary rates, totaled $254,936 and $227,659, respectively. Employees are not paid for unused sick leave upon termination. Based on historical usage patterns, management determined that no additional compensated-absence liability was required.

NOTE 17 – ECONOMIC DEPENDENCY

The Water Company purchases 100% of the water it sells from the following entities: Shelbyville Municipal Water (21.9%), Frankfort Electric & Water Plant Board (14.6%), and Louisville Water Company (63.5%).

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 $409,008 and $504,174 for these services for the years ended December 31, 2025 and 2024, respectively. There was a receivable due from U.S. 60 Water District in the amount of $59,416 and $50,081 at December 31, 2025 and 2024, respectively.

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. $0 and $14,747 was held for future lines at December 31, 2025 or 2024, respectively.

NOTE 20 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Management has considered subsequent events through the date of this report July 29, 2026, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2025.

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)	2025 (June 30, 2025)	2024 (June 30, 2024)	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)
Water Company's proportion of the net pension liability %	0.021829%	0.019921%	0.021110%	0.021056%	0.022168%	0.018913%	0.018664%	0.018137%	0.018680%	0.018834%
Water Company's proportionate share of the net pension liability (asset)	$ 1,214,694	$ 1,191,360	$ 1,354,525	$ 1,522,141	$ 1,413,384	$ 1,450,611	$ 1,312,647	$ 1,104,599	$ 1,093,398	$ 927,293
Water Company's covered employee payroll (calendar year)	$ 733,146	$ 688,093	$ 605,388	$ 598,815	$ 584,663	$ 521,354	$ 475,018	$ 457,698	$ 458,377	$ 448,684
Water Company's proportionate share of the net pension liability (asset) as a percentage of its of its covered employee payroll	165.68%	173.14%	223.74%	254.19%	241.74%	278.24%	276.34%	241.34%	238.54%	206.67%
Plan fiduciary net position as a percentage of the total pension liability	65.34%	61.61%	57.48%	52.42%	57.33%	47.81%	50.45%	53.54%	53.3%	55.5%

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required employer contributions	$ 140,408	$ 147,182	$ 141,477	$ 138,359	$ 118,409	$ 99,633	$ 81,560	$ 70,327	$ 64,825	$ 59,977
Contributions in relation to the contractually required contributions	140,408	147,182	141,477	138,359	118,409	99,633	81,560	70,327	64,825	59,977
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Water Company's covered payroll (calendar year)	$ 733,146	$ 688,093	$ 605,388	$ 598,815	$ 584,663	$ 521,354	$ 475,018	$ 457,698	$ 458,377	$ 448,684
Contributions as a percentage of covered payroll	19.15%	21.39%	23.37%	23.11%	20.25%	19.11%	17.17%	15.37%	14.14%	13.37%

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)	2025 (June 30, 2025)	2024 (June 30, 2024)	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) %	0.021842%	0.019941%	0.021110%	0.021053%	0.022162%	0.018907%	0.018659%	0.018136%	0.018680%
Water Company's proportionate share of the net OPEB liability (asset)	$ 20,978	$ (34,494)	$ (29,146)	$ 415,484	$ 424,280	$ 456,547	$ 313,836	$ 322,001	$ 375,532
Water Company's covered employee payroll (Calendar Year)	$ 733,146	$ 688,093	$ 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	2.86%	-5.01%	-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	97.66%	104.89%	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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required employer contributions	$ -	$ -	$ 10,116	$ 22,518	$ 30,868	$ 24,567	$ 26,467	$ 22,821	$ 21,980	$ 20,335
Contributions in relation to the contractually required contributions	-	-	10,116	22,518	30,868	24,567	26,467	22,821	21,980	20,335
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Water Company's covered payroll (calendar year)	$ 733,146	$ 688,093	$ 605,388	$ 598,815	$ 584,663	$ 521,354	$ 475,018	$ 457,698	$ 458,377	$ 448,684
Contributions as a percentage of covered payroll	0.00%	0.00%	1.67%	3.76%	5.28%	4.71%	5.57%	4.99%	4.80%	4.53%

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

NORTH SHELBY WATER COMPANY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2025 and 2024

1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of the Water 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 Water Company's Contributions (OPEB) – County Employees Retirement System.

Payroll

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

Benefit Terms

There were no changes in benefit terms from 2015 through 2025 for CERS Pension and nor were there any changes in benefit terms for CERS OPEB from 2018 through 2025 except as indicated below.

2018 – House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty.

2. Changes in Assumptions (as of June 30 of the measurement date)

Pension

2016 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2017 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2018 – No changes.

2019 – Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020, 2021 and 2022 – No changes.

2023 – The price inflation assumption was increased from 2.30% to 2.50%. The assumed investment return was increased from 6.25% to 6.50%.

2024 – No changes.

2025 – No changes.

2. Changes in Assumptions (as of June 30 of the measurement date) (Continued)

OPEB

2018 – The discount rate used to calculate the total OPEB liability increased from 5.84% to 5.85% for the nonhazardous system. The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. The municipal bond rate increased from 3.56% to 3.62%.

2019 – The discount rate used to calculate the total OPEB liability decreased from 5.85% to 5.68% for the nonhazardous system. Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percentage of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members. The municipal bond rate decreased from 3.62% to 3.13%.

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019, valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020, actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. The municipal bond rate decreased from 3.13% to 2.45%.

2021 – The discount rate used to calculate the total OPEB liability decreased from 5.34% to 5.20%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020, valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The municipal bond rate decreased from 2.45% to 1.92%

2022 – The discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70%. The municipal bond rate increased from 1.92% to 3.69%.

2023 – The discount rate used to calculate the total OPEB liability increased from 5.70% to 5.93%. The municipal bond rate increased from 3.69% to 3.86%. The price inflation assumption increased from 2.30% to 2.50%. The assumed investment return was increased from 6.25% to 6.50%.

2024 – The discount rate used to calculate the total OPEB liability increased from 5.93% to 5.99% for the nonhazardous plan. The municipal bond rate increased from 3.86% to 3.97%. The initial healthcare trend rate for pre-65 was changed from 6.80% to 7.10%. The initial healthcare trend rate for post-65 was changed from 8.50% to 8.00%

2025 – The discount rate used to calculate the total OPEB liability increased from 5.99% to 6.26% for the nonhazardous plan. The municipal bond rate increased from 3.97% to 5.20%. The initial healthcare rate for pre-65 was changed from 7.10% to 6.80%. The initial healthcare trend rate for post-65 was changed from 8.00% to 8.50%

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

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

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, 2025, 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 July 29, 2026.

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 2025-001 and 2025-002 that we consider to be material weaknesses.

Board of Directors of the
North Shelby Water Company
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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

July 29, 2026

NORTH SHELBY WATER COMPANY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2025

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 2025-001 and 2025-002 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

2025-001 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, adequate cross-training, segregation of duties, checking procedures, and documented management reviews are not in place for certain administrative and financial functions. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2024 as Item 2024-001.

CAUSE:

The limited number of personnel and the specialized responsibilities assigned to individual positions restrict management's ability to rotate duties, provide adequate cross-training, and implement independent checking and review procedures. In addition, formal procedures have not been fully developed to address inventory accountability, sales tax compliance, budget-to-actual monitoring, and reconciliation of subsidiary records to the general ledger.

EFFECT:

These limitations may affect the ability to timely record, process, summarize and report financial data. 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. Sales tax was not paid on purchases as required. These weaknesses may result in inaccurate financial reporting, improper inventory balances, unpaid sales tax liabilities, failure to identify significant budget variances, and delays in recording, processing, summarizing, and reporting financial information.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff, implement additional checking processes and increase review procedures. Periodic reviews of debt service covenants and requirements should also occur. Budget to actual reviews should be performed by management and those charged with governance periodically. Budgeted figures should align with the annual expectations of the Water Company given the anticipated operations and capital outlay of the Water Company. Procedures should be defined that identify software reports 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)

2025-001 SIZE OF ENTITY, CROSS-TRAINING, CHECKING PROCEDURES AND DOCUMENTATION (Continued)

VIEWS OF RESPONSIBLE OFFICIALS:

We concur with the recommendation. Management is currently developing additional checking and review procedures. 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.

2025-002 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, 2024 as Item 2024-002.

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