

CITY OF WINCHESTER

AUDITED BASIC FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTARY DATA
AND INDEPENDENT AUDITOR'S REPORTS

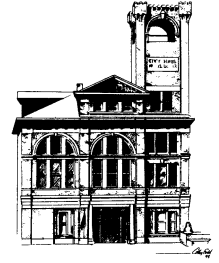
FOR THE YEAR ENDED JUNE 30, 2023

CITY OF WINCHESTER, KENTUCKY
JUNE 30, 2023

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City of Winchester



Established 1793

February 23, 2024

Mayor JoEllen Reed
Members of the Board of Commissioners
Residents of Winchester

Dear Mayor, City Commissioners, and Residents of Winchester:

We are pleased to submit the annual audited Financial Statements for the fiscal year ending June 30, 2023. These Financial Statements were prepared in conformance with *Generally Accepted Accounting Principles* (GAAP) and the reporting standards of the *Governmental Accounting Standards Board* (GASB).

City Management is to ensure that the data presented is accurate, complete, and fair. To provide a reasonable basis for compiling these statements, the City has established internal controls that are designed to safeguard the City's assets from loss, theft, or misuse and to ensure the City's financial statements are composed of reliable information which is GAAP compliant. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Reasonable assurance acknowledges that the cost of internal controls should not exceed the benefits and that the cost-benefit analysis is determined by management assessments.

These financial statements, to the best of our knowledge, are complete and accurately reflect the City's financial operations. Necessary disclosures have been included in this report to allow the reader an opportunity to gain an understanding of the City's financial activities.

The independent accounting firm of Summers, McCrary, and Sparks P.S.C., Certified Public Accountants, has issued an unmodified opinion that these financial statements for the fiscal year ended June 30, 2023, are free of any material misstatement. Requests for Audit Reports should be directed to the City's Finance Department.

PROFILE OF GOVERNMENT

The City of Winchester, Kentucky was incorporated in 1793. The city is the county seat of Clark County, which is in central Kentucky, commonly referred to as the Bluegrass Region. The City currently occupies 8.4 square miles (5,377 acres) and serves a population of 19,000 (2022 census data).

The City of Winchester elected to operate under the City Manager form of government, pursuant to KRS 83A.150, in 1968. Executive, legislative, and policy-making authority are vested in a governing council consisting of the Mayor and four Commissioners. The Board of Commissioners is elected on a non-partisan basis. The Mayor serves a four-year term, while Commissioners serve a two-year term. The Board of Commissioners are responsible for passing ordinances, setting tax rates, adopting a budget, hiring, and making appointments.

The City Manager is responsible for carrying out the policies, orders, and ordinances of the Board and for overseeing the daily operations of the City. Additionally, the City Manager supervises all departments including Legal, Finance, Planning & Development, Main Street, Human Resources, Purchasing, Central Communications, Police, Fire, Emergency Services and Public Works. (The City of Winchester provides county-wide services, by agreement with the county, for Dispatch and Emergency Services.)

The City of Winchester is also responsible for water and sewer services. In 1958, the City established Winchester Municipal Utilities (WMU) as a public project to oversee water, sewer, and garbage disposal. WMU has full control over the supervision and management of these activities. WMU is considered a business-type activity because it charges fees for its services. WMU is separate in that it has its own budget, accounts, revenues, expenses, and its own annual audit. However, WMU is considered a component unit of the City of Winchester because the Winchester Board of Commissioners appoints members to the WMU Commission, sets rates, and approves bond issuances. Land is owned in the name of the City of Winchester. Therefore, WMU's audit is incorporated into the City's. Contact information for WMU is listed at the end of this report.

WMU is a municipal utility enterprise fund separate from the City and which has been separately audited. A full discussion of WMU's financial activities can be found in that audit. WMU's audit was prepared by Summers, McCrary, and Sparks, PSC and was accepted by the utility commission on December 14, 2023.

The City's fiscal year begins July 1 and ends June 30, according to state statute. An annual budget, based on the fiscal year, is prepared by fund and department. Budget-to-actual comparisons are provided in this report. The annual budget serves as the foundation for financial planning and control. All departments are required to submit budget requests in the early spring. The City Manager then uses these figures as a starting point for developing a draft budget. The draft budget is then submitted to the Board of Commissioners for first and second readings. The City is required to have a final budget in place before June 30.

BUSINESS INCENTIVE PROJECTS

To encourage investment and job growth in Winchester, the Kentucky Economic Development Finance Authority (KEFDA) has several economic tax incentive packages that companies can apply for to grow their businesses.

The Kentucky Business Investment (KBI) program is a performance-based incentive that allows a company to keep a portion of its investment over the term of the agreement through corporate income tax credits and wage assessment by meeting job and investment targets. The Kentucky Industrial Development Act (KIDA) is the former KBI program. The maximum tax incentive authorized is for both local and state incentives combined. The term of the agreement begins on the date of final approval and when the City has an agreement with the business. These agreements work by pledging to the business a portion of the occupational license fees withheld from employees' wages.

We now have two (2) local participation agreements – Catalent and Taica. The Business Incentive Projects table shows the activation dates. That is when the term begins for each project.

The Kentucky Enterprise Initiative Act (KEIA) allows approved companies to recoup Kentucky sales and use tax on construction costs, building fixtures, equipment used in research and development, and electronic processing equipment.

Community Development Block Grants (CDBG) are federally funded low-interest loans made available through the Department of Local Government.

Projects listed below have received preliminary or final approval from the KEFDA for one or more of these programs. As might be expected, these programs have helped our economy tremendously.

RECIPIENT	PROGRAM	TOTAL PROJECT COST	MAX TAX INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS	AGREEMENT DATE	OCC LICENSE TAX PLEDGED	ACTIVATION DATE
Catalent Pharma Solutions LLC	KBI	\$46,800,000	\$2,000,000	307	90	Reso #R2013- 6 11/5/2013	1%	12/12/2015
Danimer Scientific Kentucky, Inc.	KBI	\$158,042,793	\$1,500,000	76	55			

RECIPIENT	PROGRAM	PROJECT COST	KEFDA projects (continued)			AGREEMENT DATE	TAX PLEDGED	ACTIVATION DATE
			INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS			
Infiltrator Water Technologies, LLC	KBI	\$157,600,000	\$1,250,000	307	96			
Rip Technologies LLC	KBI	\$3,920,000	\$650,000	0	50			Prelim
Taica Corporation	KBI	\$8,049,232	\$500,000	NA	30	Reso# R2014- 5 5/6/2014 Term 10 yrs.	0.50%	1/1/2016
The Freeman Corp	KBI	\$3,440,000	\$500,000	202	32			4/28/2018
Washington Penn Plastic Co., Inc.	KBI	\$104,936,636	\$2,500,000	0	88			Prelim

TAX INCREMENT FINANCING

In 2000, the Kentucky General Assembly approved laws allowing tax increment financing (TIF). In 2007, there was a major overhaul to the existing laws. In essence, TIF incentives encourage involvement of private investment in development areas. Designating an area as a TIF district allows the owner/developer to finance improvements from future increases in the tax revenues.

In 2010, by Ordinance No. 1-2010, the City and County created a TIF district in the area around Winchester Plaza. The local participation agreement is for 20 years. The City pledged 100% of the incremental real ad valorem taxes and 50% of the incremental occupational license fees to the developer. The Winchester Plaza completed initial renovations about twelve years ago with continued improvements occurring throughout the years. Business activity in the area continues to move in a positive direction with the addition of several chain retail businesses, discussed later in this report.

The following table summarizes the City's pledge to date:

WINCHESTER PLAZA TIF DISTRICT	
2010-2011	\$14,884
2012	\$39,667
2013	\$17,015
2014	\$21,890
2015	\$28,365
2016	\$24,675
2017	\$25,570
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	\$0
2023	\$52,013
Total Payments to Date	\$224,079

On March 21, 2017, the final Downtown Master Plan was accepted. On April 18, 2017, the City approved Order No. 2017-44 approving legal services to establish a TIF district in the downtown area. On January 15, 2019, the City Commission approved ordinance 1-2019 establishing a TIF district in the downtown area. To-date, \$86,988 has been placed in the fund for improvements in the downtown area. Monies are expected to be expended on work associated with the Main Street High Side Project scheduled for construction in calendar year 2024 and 2025.

REVENUE SHARING

On January 17, 2012, by Order No. 2012-9, the City and the Clark County Fiscal Court executed an inter-local agreement for revenue sharing (payroll taxes) from the old hospital area site (A -Floyd Clay Drive and McCann Drive) and the new hospital area site (B - Hospital Drive). That agreement stipulated a 65/35 split for the taxes. The City retains 65% and pays the County 35%. The effective date was April 1, 2012. The Hospital Drive area revenue has increased, as a result of additional office buildings and new businesses in the area.

The following table summarizes the revenue we have committed to the Fiscal Court to date:

REVENUE SHARING FISCAL COURT	
2012	\$128,019
2013	\$150,969
2014	\$238,306
2015	\$249,996
2016	\$286,620
2017	\$352,058
2018	\$355,602
2019	\$307,312
2020	\$289,671
2021	\$325,321
2022	\$375,519
2023	\$473,964
Total Payments to Date	\$3,533,357

INDUSTRIAL PARK

Several companies within the Industrial Park have invested in expansion projects or built new facilities during recent years. These expansions have added more jobs for our community while improving the City's financial status.

Catalent continues construction activities announcing additional expansion in the park estimated at \$62 million and potentially creating 300 more jobs. To this end, the City of Winchester approved the issuance of Industrial Revenue bonds and an interlocal agreement in the amount of \$140 million to help Catalent construct an 80,000 square-foot expansion for the pharmaceutical manufacturing facility.

Danimer Scientific Kentucky Inc. purchased the Alltech property in 2018 and began operating January 15, 2019, with land, building and equipment being a total investment of \$36 million. This location is approximately 30 acres including 90,000 square feet of existing building. This project in the beginning stages created 37 full time new jobs with an average salary of \$53,643 yearly with an additional 15% compensation through employee benefits. The City Commission approved Resolution R2020-2 May 19, 2020, therefore providing a credit of the Occupational License Fee for a ten-year period beginning after project completion equal to half of the two percent (1%) on the newly created Kentucky resident positions. Danimer continues to grow their staff and increase production at this facility.

The WCCIDA has worked diligently to achieve project ready status for several lots within the current park (Phase VI). To that end, Washington Penn (plastics company) has purchased the 70-acre tract between Sekisui and Bluegrass Technical and Community College with plans to initiate construction in the 2024 calendar year. The same concept is being utilized for remaining acreage in the Phase VI area (Denham Court). In essence, project ready status will allow an industry to locate within the park without significant upfront development costs, such as installation of necessary utilities, substantial grading requirements, and other pertinent development needs. This affords our community the opportunity to be more attractive. In addition, the WCCIDA is actively looking for additional land for industrial development.

STATUS OF GRANTS

The City of Winchester vigorously pursues grant opportunities to aid in the development and improvement of its services, equipment, and infrastructure. During FY2023, the City applied for and/or received several grants. Listed below is the status of grant applications.

1. CDBG – Lincoln Street Redevelopment Project (Phase 2), \$1,000,000 (in process)
2. Cleaner Water Grant (409) – Vaught Road Stormwater Improvements - \$168,000 (approved)
3. National Parks Service (Land and Water Grant) – Eugene Gay Splashpark - \$250,000 (approved)
4. TAP Grant (Division of Local Government/KDOT) – Main Street High Side project - \$5.5M (in process)
5. FEMA AFG grant: Approved for \$29,160 with a City portion of \$1,388.58 (in process)
6. FEMA AFG grant: Vehicle Acquisition for \$525,000 (in process)

OTHER DEVELOPMENT

Also, WCCIDA remains focused on commercial, retail, and restaurant development. Our community continues to see positive results from our involvement with the Winchester Plaza redevelopment with creation of the TIF district in the area around Winchester Plaza. (See *Tax Increment Financing*) New development includes the construction of a Holiday Inn Express (completed). The hotel was an \$8-\$10-million-dollar investment with 75 rooms. Other retail businesses have leased property in the calendar year with additional business poised to come. In 2009, the plaza was 90% empty. It is now 80-90% occupied. The TIF district continues to perform well, providing jobs and occupational license tax revenue above the baseline established in 2009.

Twelve years ago, a private company purchased the non-profit Clark Regional Medical Center and began construction of a new hospital. The new hospital is near Winchester Plaza. The City annexed this area and approved a joint revenue-sharing agreement with the Clark County Fiscal Court. The hospital also built a 4,600 square-foot medical office building. The hospital continues to expand to meet the needs of the medical community. As such this development continues to draw other business while creating more business opportunities in that area. The City remains encouraged by the potential of new development surrounding the hospital with commercial construction scheduled in the calendar year (extended stay facility).

With completion of the Depot Street Project more than ten years ago the City worked with the Farmers Market to construct a pavilion in the area including rehabilitation of the silos. Monies were expended from grant funds,

City of Winchester, Greater Clark Foundation and Farmers Market to complete the approximately \$600K project. The project has provided much benefit to the community since its dedication on May 14, 2022. Additional phases of the project are scheduled to facilitate growth in this key area of the community.

The Daniel Boone Pioneer Festival and the Beer Cheese Festival are two of many activities that are held in the downtown area during the course of the year to strengthen businesses in this area. The City is actively working on development of the Main Street High Side project plans/construction in order to improve the downtown area. As noted above the City received a \$5.5M TAP grant from the Division of Local Government to construct improvements on the high side of Main Street. This coupled with Winchester First Downtown Development Investment Funds (DDIF) will allow the City to maintain a positive direction in the downtown area.

BONDS

The City authorized the issuance of industrial building revenue bonds in an amount not to exceed \$140,000,000 (Ordinance No. 10-2015) for the Catalent Pharma Solutions, LLC Project. The ordinance approved: (1) a trust indenture with U.S. Bank; (2) a Memorandum of Agreement for a lease agreement for the acquisition, construction, equipping, and installation of an approximately 80,000 square foot expansion; (3) a bond purchase agreement; (4) a Payment In Lieu of Taxes (PILOT); and (5) a home office payments agreement which is now completed.

This is a 20-year bond agreement. The PILOT portion stipulates annual payments from Catalent to the City beginning in Year 1 (FY2017) with a beginning payment of \$315,725. The payments will be distributed to the City, the Fiscal Court, the Board of Education, the Extension Office, the Health Department, the Library, and the Sheriff's Office.

The City authorized the issuance of industrial revenue bonds in an amount not to exceed \$111,000,000 (Ordinance No. 18-2020) for Danimer Scientific Kentucky, Inc. The ordinance approved: (1) The approval of lease and bonds and acceptance of transfers; (2) a Facilities Lease Agreement; (3) Facilities Sublease Agreement; (4) Equipment Lease Agreement; (5) Facilities Bond Purchase Agreement; (6) Equipment Bond Purchase Agreement; (7) Facilities Sublease Agreement; (8) Equipment Lease Assignment; (9) Payment In Lieu of Taxes (PILOT); (10) A bond purchase agreement.

OTHER INFORMATION

Retirements

The City recognized the following retirements during Fiscal Year 2023:

1. William Clark, Public Works Supervisor, 31 years
2. Dennis Briscoe, Police Captain, 20 years
3. Danny Dennis, Police Officer III, 16 years
4. Tina Pendleton, Communications Officer III, 5 years
5. Malcolm Highley, Lieutenant EMT, 20 years
6. Michael Smith, Public Works Operator II, 15 years

Elected Officials

The following elected officials are dedicated to improvement of services to the citizens of Winchester. They can be reached at the City Manager's office.

Mayor Jo Ellen Reed
Commissioner Shannon Cox
Commissioner Kitty Strobe
Commissioner Kenny Book
Commissioner Hannah Toole

Respectfully submitted,



Alicia Mayabb
Finance Director



Michael H. Flynn
City Manager

SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES
PRACTICE SECTION OF THE AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA
JUSTIN B. NICHOLS, CPA
EMILY N. JACKSON, CPA

SUSAN A. LACY, CPA

LAURENCE T. SUMMERS
1961-1992
STUART K. MCCRARY, JR., CPA
1982-2022

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners
City of Winchester, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Winchester, Kentucky 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 opinions.

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Winchester, Kentucky'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 City of Winchester, Kentucky'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 management's discussion and analysis on pages 13-25, the single employer defined pension trust schedules and notes on page 85-86, and the cost-sharing defined pension trust and other postretirement employee benefit plan schedules and notes on pages 87-93 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Winchester, Kentucky's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section (Profile of Government) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2024, on our consideration of the City of Winchester, Kentucky'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 City of Winchester, Kentucky'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 City of Winchester, Kentucky's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Lexington, KY
February 23, 2024

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

The management team of the City of Winchester presents this Management Discussion and Analysis to outline the financial highlights and provide their analysis of the financial reports by explaining changes in the financial data for the year ended June 30, 2023 (FY2023). This narrative is intended to disclose any known significant events or decisions that affected the financial condition of the City during this period. In addition, supplementary information is presented in other sections of this report that we hope will help those reviewing this report understand the City's operations.

EXECUTIVE SUMMARY

City employees continually strive to serve the citizens of this community in the most cost-effective manner possible. It is important to remember that serving our citizens requires both manpower and money to fund the day-to-day operations that improve the quality of life in our community and meets the expectations of those we serve.

Some of the key financial indicators for FY 2023 include the following:

- The City's net financial position increased during FY2023, primarily due to conservative spending practices and receipts of various state and federal grants. Net financial position increased by approximately \$647 thousand as of June 30, 2023.
- The fund statements present financial information that is similar to the budget planning reports. General Fund reported a total fund balance of approximately \$7.7 million with \$362,939 committed to the self-insurance funds.
- Unassigned fund balance in the General Fund was \$7.3 million as of June 30, 2023, which represents 31.29% of General Fund expenditures and provides a reserve for future budget needs.
- General Fund balance decreased approximately \$946 thousand for FY 2023.
- The Capital Equipment fund uses a portion of the occupational license fee to finance capital improvements projects for the City. During FY 2023, this fund received \$1,285,033 in tax funding.

Resources for public services are provided through taxes, fees, licenses, permits, investments, charges for services, intergovernmental revenue, and grants. Collection of funds is performed by the Finance Department. Every effort is made to collect funds fairly, equitably, and efficiently. The four main revenues are occupational license fees, insurance premium taxes, property taxes, and EMS revenue.

Service to our citizens includes central dispatching (county-wide), police, fire, emergency medical services (county-wide), public works, and administrative departments. All departments make every effort to use financial resources effectively and efficiently. It should be noted, that about 75% of general fund expenses are in the form of manpower (personnel costs) and that most of these personnel costs directly relate to public safety.

The city makes every effort to hire and retain qualified people who deliver quality services to our citizens. To ensure these services, employee wages and benefits are a vital component of the city's financial operations. Personnel costs include wages, taxes, retirement, and insurance. The city granted a 4% cost-of-living (COLA) for FY2023. The City's self-insured employee health insurance plan continued to help manage the city's health care costs and keep those benefits on a sustainable level to protect both taxpayers and employees.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Employer contribution rates for retirement are mandated by the Board of Trustees for the CERS-County Employees Retirement System. These rates are what the city pays on employee wages to CERS which is administered by the County Employees Retirement System. In 2019, the Kentucky General Assembly imposed a 12% cap on contribution rate increases for local government employers participating in CERS to allow a phase-in of the significant increases proposed by the 2017 Actuarial Study for CERS beginning in FY2019. In 2019, an experience study indicated that mortality assumptions should be revised which increased rates further in FY2022. The phase-in for both changes in assumptions was completed in the 2022 valuation and future employer contributions will be based on the actuarially determined contribution. Rates are anticipated to decline over the next 20 years. The table below shows the trend in employer contribution rates over the preceding five years and succeeding two years:

CERS RATES		
	<u>Non-Hazardous</u>	<u>Hazardous</u>
FY2025	19.71%	38.61%
FY2024	23.34%	43.69%
FY2023	26.79%	49.59%
FY2022	26.95%	44.33%
FY2021	24.06%	39.58%
FY2020	24.06%	39.58%
FY2019	21.48%	35.35%
FY2018	19.18%	31.55%

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the City: government-wide financial statements and fund financial statements.

The government-wide financial statements include a *Statement of Net Position* and a *Statement of Activities*. These two statements provide both short-term and long-term information about the City's overall financial status. The government-wide financial statements have been prepared using the full accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods.

These two statements divide the City of Winchester into two types of activities. Governmental activities which include basic services, such as general administration, police, fire, and public works. Payroll taxes, insurance premiums taxes, property taxes, licenses, and state and federal grants finance most of these activities. Secondary business-type activities which includes services for which fees are charged to customers to help cover all or most of the cost of certain services.

Government-wide statements present capital assets on the *Statement of Net Position*, including infrastructure assets. This is a significant difference between the government-wide statements and the fund statements. The infrastructure component of the standard is intended to provide financial information about the City's roads, bridges, storm sewers, and other infrastructure assets.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

The *Statement of Net Position* provides information on all the City's assets and liabilities, including long-term debt and capital assets. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as net position. Increases or decreases in net position will be analyzed to determine whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* provides information on how the City's net position changed during the most recent year. Amounts reported on this statement include depreciation of capital assets, rather than the purchase of capital assets which are reported in the fund statements (and our budgetary process). Depreciation provides a measure of how much of our capital assets have been used in the operation. Comparing depreciation expense to our capital purchases provides an indicator of whether our capital investments are keeping pace with the use of these assets.

The remaining statements are fund financial statements that focus on the individual parts of City government. These statements report the City's operations in more detail than the government-wide statements. There are three types of fund financial statements:

- 1) The governmental funds statements tell how general government's basic services were financed and spent in the short term, as well as what remains for future spending. They focus on the City's most significant or "major" funds and groups of funds, not the City as a whole. The City's General Fund, Capital Equipment Fund, and Federal & State Grants Fund are reported as major funds and the other smaller funds are summarized in the "nonmajor" column.
- 2) The proprietary funds statements tell how Winchester Municipal Utilities (WMU is the City's water, sewer, and solid waste component) services and activities were financed and spent. These statements are presented on the same economic resource measurement focus used in the government-wide statements.
- 3) The fiduciary funds statements provide financial information about the local Winchester Policemen's and Firemen's Pension Fund and custodial funds. The pension fund can only be used for the trust beneficiaries. In addition, the city provides administrative services for the Bluegrass Regional Cable Commission. These activities are reported in the custodial fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements are presented after the financial statements. The note disclosures explain some of the information in the financial statements and provide more detailed data. Notes are an integral component of the basic financial statements.

Required Supplementary Information is presented after the Notes and provides trend information about the local pension fund (fiduciary fund) and the cost-sharing retirement plans administered by the Commonwealth of Kentucky.

The final part of the basic financial statements includes other supplementary information that includes combining schedules for the non-major governmental funds. The City established these additional special revenue funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

FINANCIAL HIGHLIGHTS

Governmentwide Analysis

Statement of Net Assets

The Statement of Net position provides a long-term view of the City's financial position. This report includes both capital assets and long-term liabilities that outline a more comprehensive view of the City's financial resources. *Net Position* is the difference between total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. This section is further divided into three components: net investment in capital assets, restricted, and unrestricted. *Net investment in capital assets* reflects real estate and personal property less depreciation and the amounts borrowed to purchase those assets plus deferred outflows, and less deferred inflows, related to capital asset purchases and financing.

The *restricted* component is subject to constraints imposed by legal restrictions, for specific funds or projects. The *unrestricted* component represents those financial resources that are available for future programs and services. Changes in all three of these categories can help our readers understand how the City's financial picture is changing.

The following table summarizes the Statement of Net Position as of June 30, 2023 and 2022:

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Current and Other assets	\$ 14,663,942	\$ 18,605,082
Capital assets	17,764,100	14,789,524
Total Assets	<u>32,428,042</u>	<u>33,394,606</u>
Deferred Outflows of Resources		
Pensions	8,328,012	4,031,253
OPEB	4,109,476	3,603,953
Total Deferred Outflows of Resources	<u>12,437,488</u>	<u>7,635,206</u>
Long-Term debt outstanding	763,622	775,073
Net pension liabilities	31,747,153	28,195,365
Net OPEB liabilities	8,362,317	8,078,233
Other liabilities	2,017,697	2,264,771
Total Liabilities	<u>42,890,789</u>	<u>39,313,442</u>
Deferred Inflows of Resources		
Pensions	4,576,077	5,477,337
OPEB	4,255,124	3,742,527
Total Deferred Inflows of Resources	<u>8,831,201</u>	<u>9,219,864</u>
Net Position		
Net investment in capital assets	17,000,478	13,868,741
Restricted	3,223,526	5,252,368
Unrestricted	(27,080,464)	(26,624,603)
Total Net Position	<u>\$ (6,856,460)</u>	<u>\$ (7,503,494)</u>

Current and Other Assets decreased approximately \$3.9 million. Capital assets increased approximately \$3 million. Part of this increase includes the new Fire Pumper Truck and projects shown below.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

1. Lincoln Street
2. Town Branch Stormwater Project (Broadway/Maple)
3. Stormwater Improvement Projects (several combined)

The liability for the Winchester single-employer plan for the Policemen's and Firemen's Defined Benefit plan also increased because as the 2022 assumption changes are phased into the employer contributions. The amounts reported on the statement of net position include amounts for both the cost-sharing County Employees Retirement System plan and the city's single-employer Policemen's and Firemen's Pension Fund. The following table outlines the components of these balances as of June 30, 2023, by plan:

<u>Describe</u>	<u>CERS</u>	<u>P&F</u>	<u>Total City</u>	<u>WMU</u>
<u>Pension Plans:</u>				
Deferred Outflows	\$8,265,535	\$62,477	\$8,328,012	\$1,943,031
Deferred Inflows	\$4,574,960	\$1,117	\$4,576,077	\$1,335,293
Net Pension Liability	\$29,840,073	\$1,634,080	\$31,474,153	\$8,611,056
Pension Expense	(\$1,737,200)	\$90,969	(\$1,646,231)	(\$312,468)
<u>OPEB Plans:</u>				
Deferred Outflows	\$4,109,476		\$4,109,476	\$1,190,254
Deferred Inflows	\$4,255,124		\$4,255,124	\$1,333,117
Net OPEB Liability	\$8,362,317		\$8,362,317	\$2,350,396
OPEB Expense	\$291,158		\$291,158	\$191,539

The City's unrestricted net position continues to reflect the impact of the city's proportionate share of net pension liabilities. The deficit position in net position reflects the city's responsibility to provide future resources to fund the pension liabilities. It is important to note that the pension and OPEB liabilities are currently being amortized over a closed 30-year period and this amortization is included in the annual actuarially determined contribution rates established by the Kentucky Retirement System Board of Trustees. As we noted earlier, phase-in of contribution rates for local government employers has been completed and employer contribution rates are expected to level off or decline in the next few years. The City is not required to provide additional resources to retire this liability.

Statement of Activities

The Statement of Activities provides the operating results for all funds of the City, plus the component unit, Winchester Municipal Utilities, again using the economic resources measurement focus and accrual basis of accounting. This statement adds depreciation expense for each department but excludes the capital asset purchases.

Another important feature of this report is the emphasis on *programs*. Line-items highlight the major components of the City's governmental operations and the columns present expenses, charges for services, grants, and general revenues. This format allows our readers to assess how the general resources are allocated to programs and the amounts that each program generates for their own services.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

The following table summarizes the Statement of Activities for the City for 2023 and 2022, using the traditional operating format:

	Governmental Activities	
	<u>2023</u>	<u>2022</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,550,073	\$ 1,674,556
Grant funding	2,933,303	6,624,773
General revenues:		
Property taxes	4,320,516	4,654,213
License fees and permits	1,609,702	1,350,277
Payroll taxes	9,740,270	9,511,901
Insurance premium tax	4,030,067	3,792,681
Transient room tax	210,869	213,921
Other taxes	122,187	122,000
Interest and investment earnings	432,191	92,940
Parking fines	285	70
Other local revenues	449,007	188,307
Total Revenues	<u>25,398,470</u>	<u>28,225,639</u>
Program Expenses:		
General government	5,828,700	5,312,495
Public Protection		
Dispatch	1,439,533	1,178,084
Police	5,449,920	5,264,584
Fire	5,510,204	5,106,697
EMS	2,988,425	2,705,230
Public Services	2,409,998	2,330,801
Intergovernmental services	1,085,982	1,314,684
Interest on long-term debt	38,674	44,859
Total Expenses	<u>24,751,436</u>	<u>23,257,434</u>
Excess (deficiency) before transfers and special items	647,034	4,968,205
Gain on disposal of fixed assets	-	42,746
Net increase (decrease) in net position	<u>\$ 647,034</u>	<u>\$ 5,010,951</u>

Total Revenues decreased \$2,827,169 providing for an improvement in the City's net position. This decrease can be attributed to the cessation of American Rescue Plan Act funding . The city received American Rescue Plan Act (ARPA) monies totaling \$4,887,108 in FY2022. Total expenses increased \$1,494,002 due to the budgeted expenditures of ARPA funding received in prior years.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Analysis of Governmental Funds

The following table summarizes the Governmental Funds Balance Sheet for 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Assets:		
Cash and Cash Equivalents	\$ 10,991,608	\$ 15,336,723
Accounts Receivable	3,672,334	3,268,359
Due from Other Funds	353,028	49,691
Total Assets	<u>\$ 15,016,970</u>	<u>\$ 18,654,773</u>
Liabilities:		
Accounts Payable	\$ 25,969	\$ 301,858
Due to Other Funds	353,028	49,691
Accrued TIF Incentive Payable	26,931	39,557
Accrued Payroll & Related Liabilities	859,959	681,941
Total Liabilities	<u>1,265,887</u>	<u>1,073,047</u>
Deferred Inflows of Resources-Unavailable Property Taxes	42,841	30,051
Fund Balances:		
Restricted	3,223,526	5,238,280
Committed	3,127,924	3,889,604
Assigned	6,103	6,103
Unassigned	7,350,689	8,417,688
Total Fund Balances	<u>13,708,242</u>	<u>17,551,675</u>
Total Liabilities, Deferred Inflows of Resources & Fund Balance	<u>\$ 15,016,970</u>	<u>\$ 18,654,773</u>

Cash and Cash Equivalents decreased \$4,345,115 for operating expenditures in FY23. Current Liabilities, excluding interfund amounts, decreased \$110,497 mainly due to a decrease in accounts payable at year end.

Restricted fund balance includes those amounts that are subject to constraints imposed by third parties. Committed fund balance indicates reserves that the City Commission has set aside for specific purposes through the adoption of ordinance, such as the self-insurance funds and the resources reserved for capital projects in the Capital Equipment Fund. Assigned fund balance describes amounts that management or the Commission have designated for specific purposes. Unassigned fund balance amounts are not constrained by any specific project restrictions.

For the City of Winchester, these balances include the following types of projects:

- Restricted – grant funds from federal, state, or local sources
- Committed – self-insurance, capital equipment fund and public safety special projects
- Assigned – portion of current year fund balance that will be spent in the next year's budget including the Splash Pad project
- Unassigned – residual balance in General Fund

Restricted funds decreased \$2,014,754 mainly from the expenditures of the ARPA funding.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Committed funds decreased \$761,680 mainly from the Capital Equipment Fund. Capital Equipment Fund decreased \$1,027,927 from the current year capital expenditures. The committed balance for health insurance increased \$120,641 because an increase in medical claims during the year. There were minimal changes in other nonmajor funds. Assigned Funds remained the same with a balance of \$6,103 reflecting the amount set aside for the Splash Pad project. Unassigned Fund Balance (General Fund) decreased \$1,066,999 with an operating deficit of \$3,843,433 for FY23.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances show revenues and expenses using the modified accrual basis of accounting. There are several significant differences, including depreciation expenses (\$1,392,723) instead of capital outlay (\$4,367,299) and principal payments (\$157,161), and accrued pension and OPEB expenses (\$1,355,073) instead of cash contributions (\$4,155,119). The FY23 change in governmental fund balance was a decrease of \$3,843,433 while the increase in governmentwide net position for governmental activities was \$647,034.

The governmental fund statements are more closely aligned with the City's budgetary policies from a measurement perspective. Revenues and appropriations are estimated based on the modified accrual basis of accounting. One difference between GAAP reporting and budgetary planning is the classification of capital expenditures. For GAAP reporting, the capital outlay appropriated for each department is reported as capital outlay rather than departmental operating costs, as required by GASB financial reporting standards.

The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2023 and 2022:

	<u>2023</u>	<u>2022</u>
REVENUES:		
Taxes	\$18,027,411	\$17,889,080
Licenses & Permits	1,609,702	1,350,277
Charges for Services	1,550,073	1,523,522
Fines	285	70
Intergovernmental	3,317,012	6,997,388
Investment Income	432,192	92,942
Other	449,008	188,305
TOTAL REVENUES	<u>25,385,683</u>	<u>28,041,584</u>
General Government	5,277,238	4,751,576
Public Safety:		
Dispatch	1,405,263	1,168,861
Police	5,924,078	5,011,183
Fire	5,656,061	4,515,306
EMS	3,227,253	2,495,893
Public Works	2,090,105	2,205,002
Intergovernmental	1,085,983	1,314,685
Capital	4,367,299	1,645,412
Debt service principal	157,161	252,860
Debt service interest	38,675	44,859
TOTAL EXPENDITURES	<u>29,229,116</u>	<u>23,405,637</u>

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Excess (Deficit) of Revenues over Expenditures	(3,843,433)	4,635,947
OTHER FINANCING SOURCES (USES):		
Gain/loss on sale of capital assets	-	42,746
Operating transfers in	961,715	42,473
Operating transfers out	(961,715)	(42,473)
TOTAL OTHER FINANCING SOURCES (USES)	-	42,746
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(3,843,433)	4,678,693
Fund Balance, beginning	17,551,675	12,872,982
Fund Balance, ending	<u>\$13,708,242</u>	<u>\$17,551,675</u>

The difference between revenues and expenditures shows how total fund balance has changed since last year. Total governmental fund balances decreased \$3,843,433. General Fund decreased because of an operating deficit of \$946,358. Capital Equipment decreased \$1,027,927 as capital expenditures exceeded property tax receipts in the FY23. The Federal & State Grant fund decreased \$1,780,912 due to expenditures of ARPA funding. The nonmajor funds ended the fiscal year with a deficit of \$88,236.

Taxes collected increased \$138,331 in FY23 and charges for services increased \$26,551. Intergovernmental revenues decreased by \$3,680,376 as the City no longer received the ARPA funding. Expenditures increased \$5,823,479 across all governmental funds, mainly due to spending of grant funding.

Capital and Operating Activities

The following table separates capital revenues and expenditures from operating to highlight the results for each major category and demonstrates how operating revenues are allocated to recurring operations compared to the resources available to finance the City's capital improvement projects:

FY 2023 Governmental Funds			
	Capital	Operating	Total
Revenues	2,480,727	23,866,671	26,347,398
Expended	(3,508,654)	(26,682,177)	(30,190,831)
Net	<u>(1,027,927)</u>	<u>(2,815,506)</u>	<u>(3,843,433)</u>
FY 2022 Governmental Funds			
	Capital	Operating	Total
Revenues	1,589,527	26,452,057	28,041,584
Expended	(1,379,294)	(22,026,343)	(23,405,637)
Net	<u>210,233</u>	<u>4,425,714</u>	<u>4,635,947</u>

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance) and capital grants from federal, state, and county grant awards.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

The revenues in the capital fund increased due greater tax collections in the current year.

BUDGETARY HIGHLIGHTS

This section explains significant changes between the original and final adopted general fund budget. The Schedule of Revenues, Expenditures, Changes in Fund Balance Budget-To-Actual financial reports begin on Page 32 with reports for the General Fund and Capital Equipment Fund, a major special revenue fund.

Actual General Fund revenue was over budget by approximately \$498 thousand for FY2023. Tax receipts were over budget by \$110,508. Intergovernmental revenues were under budget by \$234,868. Charges for service revenues were over budget by \$45,073. Most of the General Fund budget to actual revenue difference can be attributed to the increase in License, Franchise & Permits of \$424,702 over budget and Investment Income of 206,759 over budget. Departments varied against budget, with a total budget surplus of \$1,053,026 for expenditures. A large portion of this surplus is attributed to personnel numbers. The Communications, Police, Fire, and EMS did not have all of their positions filled for the majority, if not the entire year. The General Fund budget projections are based on all positions being filled for the entirety of the year.

Actual Capital Equipment Fund revenues were \$214,614 over budget for FY2023. Actual Capital Equipment Fund expenses were under-budget by \$5,380,552. This is mainly due to some projects budgeted for FY2023 not taking place until FY2024.

LONG-TERM DEBT

The city finances a variety of equipment purchases with capital lease financing. There were no new capital leasing projects in the FY23. The city retired principal of \$157,161 of the outstanding leases issued in prior years during FY23. More information about long-term debt is explained in Note 8 of the Notes to the Financial Statements.

MAJOR CAPITAL PROJECTS FOR THE YEAR

Capital assets provide an important resource for supporting a variety of governmental programs and services. The City uses local tax revenues as well as federal and state grant funding to help finance critical infrastructure and public property improvements. The following table summarizes the City's governmental capital assets (net of accumulated depreciation) as of June 30, 2023 and 2022.

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Construction in progress	\$3,532,603	\$2,378,609
Land	2,146,683	2,146,683
Buildings	2,605,938	2,595,414
Vehicles	2,091,458	1,434,426
Furniture & fixtures	19,697	10,067
Equipment	555,712	369,383
Infrastructure	6,812,009	5,854,942
Total Capital Assets, Net	<u>\$17,764,100</u>	<u>\$14,789,524</u>

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

At year-end, engineering and constructions costs are still on-going for:

1. Fulton Road
2. Seventh Street
3. Community Splash Pad (Forest Park)
4. Lincoln Street a CDBG Urban Renewal Project
5. Town Branch Stormwater Improvements (Broadway/Maple)
6. Winn Avenue Stormwater Improvements
7. Wall Alley Stormwater Improvements
8. Jackson Street Bridge Rehabilitation Project
9. Fifth Street Roadway Improvements
10. Stormwater Management Asset Plan

ECONOMIC CONDITION AND OUTLOOK

The City of Winchester is located 15 miles east of Lexington. The city has experienced residential growth on the west side of Clark County, due to its proximity to the Bypass and the City of Lexington. In the future, the Veteran's Memorial Parkway is anticipated to bring about balanced residential and business growth on the east side of Clark County while working to facilitate and strengthen economics in the developed areas of the city.

Economic development continues to hold steady and shows signs of improvement. The city began the fiscal year with a 3.8% unemployment rate and ended the fiscal year with a 4.0% unemployment rate.

The local economy continues to show signs of improvement and continues to grow slowly. We have had great success with existing industry, new industry, and new businesses. We have had numerous inquiries from-potential businesses. New companies, new investment, and new jobs have all contributed to economic stability.

The City, like most Kentucky communities, is highly dependent on occupational license fees, insurance premiums taxes, and property taxes for funding governmental services. With the unemployment rate slightly decreasing (noted above) and more people working, this sustains the City's tax base.

The City did not approve the maximum allowable real property tax rate for calendar year 2022. The rates were the same as the previous year. The FY2023 budget was based on the maximum allowable rate, so this revenue was under budget expectations. Our taxes and fees are variable dependent upon the economy; however, we must maintain vital services that our citizens depend upon. It is our mission and duty to provide the same level of service to our citizens as they have come to expect regardless of the economic conditions.

As previously mentioned personnel costs consume about 75% of the General Fund budget. These costs will continue to rise for multiple reasons: (1) post-retirement benefit costs; and (2) health insurance costs; and (3) retention and recruitment costs as it relates to providing a competitive hourly wage.

During FY2023 budget preparations, a significant portion of the revenue projections were based upon infusion of federal monies into the community (ARPA). Based on revenue projections for

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

FY2023, a 4% COLA was granted to employees. This was very important in our effort to retain qualified employees essential to public safety and administration.

Management is reviewing the following issues, which will require attention or result in governmental services being impacted negatively:

1. Improving the City's financial position, i.e. that revenues (specifically property tax, payroll tax, and insurance premium tax) will exceed expenses.
2. The impact of unfunded federal mandates.
3. The impact of global economics.

While the economy has shown signs of improvement the future of providing yearly COLA's, funding retirement costs, and health insurance costs will still be difficult. These are only some of the major issues that the City is confronted with and will be challenged with in the future.

We are committed to delivering quality services to the residents and visitors of our community. Our mission is to provide our citizens with the essential and important governmental services that they have come to expect. The Mayor and Commissioners' have prioritized job growth as a priority while removing any barriers that are a hindrance to new or existing businesses. They continue to work diligently toward that end.

CONTACTING THE CITY'S FINANCIAL TEAM

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's financial position. We are dedicated to demonstrating our accountability for the money we manage on their behalf. The economic development information was provided by Brad Sowden, Winchester/Clark County Industrial Authority. If you have questions about this report or need additional financial information, please give us a call or visit us at City Hall.

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Finance Director
32 Wall Street, P.O. Box 4135
Winchester, KY 40392-4135
859-744-2821
amayabb@winchesterky.com

Michael H. Flynn
City Manager
32 Wall Street, P. O. Box 40
Winchester, KY 40392-0040
859-744-2821
mflynn@winchesterky.com

Information about Winchester Municipal Utilities can be obtained from their separately issued financial statements or by contacting these individuals:

Jennifer Sparks
Supervisor of Finance and Accounting
Winchester Municipal Utilities
150 North Main Street, P.O. Box 4177
Winchester, KY 40392-4177
jennifers@wmutilities.com

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2023**

Additional information about the economic environment in Winchester and Clark County can be obtained from:

Brad Sowden
W/CC Industrial Development Authority
61 South Main Street
Winchester, KY 40391
859-744-5627
brad@winchesterindustry.com

CITY OF WINCHESTER
STATEMENT OF NET POSITION
JUNE 30, 2023

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS:			
Current Assets			
Cash and Cash Equivalents	\$ 10,991,608	\$ 10,991,608	\$ 8,589,783
Restricted Cash and Cash Equivalents	-	-	761,294
Accounts Receivable			
Taxes	3,146,739	3,146,739	-
Accounts, net	238,992	238,992	2,415,399
Intergovernmental	286,603	286,603	-
Other	-	-	299,809
SDC Receivables	-	-	75,300
Accrued Interest	-	-	44
Prepaid Expenses	-	-	710,976
Inventories	-	-	586,857
Total Current Assets	<u>14,663,942</u>	<u>14,663,942</u>	<u>13,439,462</u>
Restricted Assets			
Cash and Cash Equivalents	-	-	8,072,550
Total Restricted Assets	<u>-</u>	<u>-</u>	<u>8,072,550</u>
Noncurrent Assets			
Construction in Progress	3,532,603	3,532,603	819,138
Land	2,146,683	2,146,683	1,519,050
Net Capital Assets	<u>12,084,814</u>	<u>12,084,814</u>	<u>122,634,014</u>
Total Noncurrent Assets	<u>17,764,100</u>	<u>17,764,100</u>	<u>124,972,202</u>
TOTAL ASSETS	<u><u>\$ 32,428,042</u></u>	<u><u>\$ 32,428,042</u></u>	<u><u>\$ 146,484,214</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	\$ 8,328,012	\$ 8,328,012	\$ 1,943,031
OPEB	<u>4,109,476</u>	<u>4,109,476</u>	<u>1,190,254</u>
Total Deferred Outflows of Resources	<u><u>\$ 12,437,488</u></u>	<u><u>\$ 12,437,488</u></u>	<u><u>\$ 3,133,285</u></u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 25,969	\$ 25,969	\$ 318,328
Accrued TIF Incentive Payable	26,931	26,931	-
Accrued Payroll & Related Liabilities	859,959	859,959	373,861
Customer Deposits	-	-	124,416
Accrued Interest Payable	-	-	41,037
Incurred but Not Reported Health Claims	193,970	193,970	-
Current Portion of Accrued Sick Leave	98,267	98,267	-
Current Portion of Bonds	-	-	4,431,938
Current portion of Financed Purchases	<u>157,075</u>	<u>157,075</u>	<u>-</u>
Total Current Liabilities	<u>1,362,171</u>	<u>1,362,171</u>	<u>5,289,580</u>
Noncurrent Liabilities			
Noncurrent Portion of Financed Purchases	606,547	606,547	-
Noncurrent Portion of Bonds	-	-	53,012,536
Noncurrent Portion of Accrued Sick Leave	812,601	812,601	412,562
Net Pension Liability	31,747,153	31,747,153	8,611,056
Net OPEB Liability	<u>8,362,317</u>	<u>8,362,317</u>	<u>2,350,396</u>
Total Noncurrent Liabilities	<u>41,528,618</u>	<u>41,528,618</u>	<u>64,386,550</u>
TOTAL LIABILITIES	<u><u>\$ 42,890,789</u></u>	<u><u>\$ 42,890,789</u></u>	<u><u>\$ 69,676,130</u></u>
DEFERRED INFLOWS OF RESOURCES			
Pensions	\$ 4,576,077	\$ 4,576,077	\$ 1,335,293
OPEB	<u>4,255,124</u>	<u>4,255,124</u>	<u>1,333,117</u>
Total Deferred Inflows of Resources	<u><u>\$ 8,831,201</u></u>	<u><u>\$ 8,831,201</u></u>	<u><u>\$ 2,668,410</u></u>
NET POSITION			
Net Investment in Capital Assets	\$ 17,000,478	\$ 17,000,478	\$ 67,527,728
Restricted			
Restricted for Capital Projects & Grants	3,223,526	3,223,526	7,040,000
Restricted for Bond Debt Service	-	-	1,793,845
Unrestricted	<u>(27,080,464)</u>	<u>(27,080,464)</u>	<u>911,386</u>
TOTAL NET POSITION	<u><u>\$ (6,856,460)</u></u>	<u><u>\$ (6,856,460)</u></u>	<u><u>\$ 77,272,959</u></u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (5,828,700)	\$ 51,778	\$ 964,059	\$ 35,582	\$ (4,777,281)	\$ (4,777,281)	
Public Safety:							
Dispatch	(1,439,533)	18,250	611,435	49,464	(760,384)	(760,384)	
Police	(5,449,920)	6,770	443,926		(4,999,224)	(4,999,224)	
Fire	(5,510,204)	-	285,743	38,095	(5,186,366)	(5,186,366)	
EMS	(2,988,425)	1,473,275	462,491	30,123	(1,022,536)	(1,022,536)	
Public Works	(2,409,998)	-	-	12,385	(2,397,613)	(2,397,613)	
Intergovernmental Services	(1,085,982)	-	-	-	(1,085,982)	(1,085,982)	
Interest on Long-Term Debt	(38,674)	-	-	-	(38,674)	(38,674)	
Total Governmental Activities	<u>(24,751,436)</u>	<u>1,550,073</u>	<u>2,767,654</u>	<u>165,649</u>	<u>(20,268,060)</u>	<u>(20,268,060)</u>	
Total Primary Government	<u>\$ (24,751,436)</u>	<u>\$ 1,550,073</u>	<u>\$ 2,767,654</u>	<u>\$ 165,649</u>	<u>\$ (20,268,060)</u>	<u>\$ (20,268,060)</u>	
Component Unit							
Winchester Municipal Utilities	\$ (18,991,219)	\$ 20,677,766	\$ -	\$ -			\$ 1,686,547
			General Revenues:				
			Taxes:				
			Property	\$ 4,320,516	\$ 4,320,516	\$ -	
			Payroll	9,740,270	9,740,270	-	
			Insurance Premium	4,030,067	4,030,067	-	
			Hotel/Motel Room Tax	210,869	210,869	-	
			Telecommunications Excise Tax	122,187	122,187	-	
			Licenses, Franchise & Permits	1,609,702	1,609,702	-	
			Investment Income	432,191	432,191	71,342	
			Parking Fines	285	285	-	
			Gain (Loss) on disposal of fixed assets	-	-	98,904	
			Other Local Revenues	449,007	449,007	193,349	
			Total General Revenues	\$ 20,915,094	\$ 20,915,094	\$ 363,595	
			Capital Contributions	-	-	743,790	
			Change in Net Position	647,034	647,034	2,793,932	
			Net Position June 30, 2022	(7,503,494)	(7,503,494)	74,479,027	
			Net Position June 30, 2023	<u>\$ (6,856,460)</u>	<u>\$ (6,856,460)</u>	<u>\$ 77,272,959</u>	

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	GENERAL FUND	CAPITAL EQUIPMENT FUND	FEDERAL & STATE GRANT FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and Cash Equivalents	\$ 5,003,097	\$ 1,866,368	\$ 3,282,535	\$ 839,608	\$ 10,991,608
Accounts Receivable					
Taxes (net of allowance for doubtful accounts \$76,597)	3,146,739	-	-	-	3,146,739
Accounts, Net of allowance for doubtful accounts (\$582,894)	238,992	-	-	-	238,992
Intergovernmental	260,634	-	-	25,969	286,603
Due from Other Funds	-	353,028	-	-	353,028
TOTAL ASSETS	\$ 8,649,462	\$ 2,219,396	\$ 3,282,535	\$ 865,577	\$ 15,016,970
LIABILITIES:					
Accounts Payable	\$ -	\$ -	\$ -	\$ 25,969	\$ 25,969
Due to Other Funds	-	-	353,028	-	353,028
Accrued TIF Incentive Payable	26,931	-	-	-	26,931
Accrued Payroll & Related Liabilities	859,959	-	-	-	859,959
TOTAL LIABILITIES	886,890	-	353,028	25,969	1,265,887
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Property Taxes	42,841	-	-	-	42,841
FUND BALANCES:					
Restricted Fund Balance	-	-	2,929,507	294,019	3,223,526
Committed Fund Balance	362,939	2,219,396	-	545,589	3,127,924
Assigned Fund Balance	6,103	-	-	-	6,103
Unassigned Fund Balance	7,350,689	-	-	-	7,350,689
TOTAL FUND BALANCES	7,719,731	2,219,396	2,929,507	839,608	13,708,242
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,649,462	\$ 2,219,396	\$ 3,282,535	\$ 865,577	\$ 15,016,970

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

Total Governmental Fund Balances	\$ 13,708,242
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of Net Position	17,764,100
Deferred Inflows related to unavailable revenues are reported in the fund financial statements because they will be recognized in future periods but reported as revenue in the government-wide statements	42,841
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods	(4,576,077)
Deferred Inflows related to OPEB are not reported in the fund financial statements because they will be recognized in future periods	(4,255,124)
Deferred Outflows related to pension are not reported in the fund financial statements because they do not represent current financial resources	8,328,012
Deferred Outflows related to OPEB are not reported in the fund financial statements because they do not represent current financial resources	4,109,476
Certain liabilities are not reported in the fund statements because they are not due and payable, but these liabilities are included in the statement of net position	
Long-term debt	(763,622)
Incurred but Not Reported Health Claims	(193,970)
Compensated Absences Liability	(910,868)
Net Pension Liability--Cost-sharing CERS Plan	(30,113,073)
Net OPEB Liability--Cost-sharing CERS Plan	(8,362,317)
Net Pension Liability--Single-employer Police & Firefighters Plan	(1,634,080)
Net Position of Governmental Activities	\$ <u><u>(6,856,460)</u></u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	GENERAL	CAPITAL EQUIPMENT	FEDERAL & STATE GRANT FUNDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 16,531,508	\$ 1,285,033	\$ -	\$ 210,870	\$ 18,027,411
Licenses, Franchises & Permits	1,609,702	-	-	-	1,609,702
Charges for Services	1,550,073	-	-	-	1,550,073
Fines	285	-	-	-	285
Intergovernmental	2,564,482	165,650	39,400	547,480	3,317,012
Investment Income	246,759	112,275	3,125	70,033	432,192
Other	99,455	14,656	214,680	120,217	449,008
TOTAL REVENUES	<u>22,602,264</u>	<u>1,577,614</u>	<u>257,205</u>	<u>948,600</u>	<u>25,385,683</u>
EXPENDITURES:					
City Commission	1,788,501	2,400	-	-	1,790,901
City Attorney	67,555	-	-	-	67,555
City Manager	730,970	-	-	-	730,970
Finance Department	610,584	-	-	-	610,584
Planning Department	572,912	-	-	550	573,462
Engineering Department	151,035	-	-	-	151,035
Main Street Department	96,930	-	-	144,682	241,612
Administration	1,103,206	4,705	-	3,208	1,111,119
Central Communications	1,405,263	-	-	-	1,405,263
Police Department	5,871,165	8,899	-	44,014	5,924,078
Fire Department	5,656,061	-	-	-	5,656,061
EMS Division	3,227,253	-	-	-	3,227,253
Public Works	1,457,638	-	-	632,467	2,090,105
Intergovernmental	638,889	-	235,179	211,915	1,085,983
Capital	112,058	3,296,814	958,427	-	4,367,299
Debt service principal	-	157,161	-	-	157,161
Debt service interest	-	38,675	-	-	38,675
TOTAL EXPENDITURES	<u>23,490,020</u>	<u>3,508,654</u>	<u>1,193,606</u>	<u>1,036,836</u>	<u>29,229,116</u>
Excess (Deficit) of Revenues over Expenditures	<u>(887,756)</u>	<u>(1,931,040)</u>	<u>(936,401)</u>	<u>(88,236)</u>	<u>(3,843,433)</u>
OTHER FINANCING SOURCES (USES):					
Gain/loss on sale of capital assets	-	-	-	-	-
Operating transfers in	-	903,113	58,602	-	961,715
Operating transfers out	(58,602)	-	(903,113)	-	(961,715)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(58,602)</u>	<u>903,113</u>	<u>(844,511)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(946,358)	(1,027,927)	(1,780,912)	(88,236)	(3,843,433)
Fund Balance June 30, 2022	<u>8,666,089</u>	<u>3,247,323</u>	<u>4,710,419</u>	<u>927,844</u>	<u>17,551,675</u>
Fund Balance June 30, 2023	<u>\$ 7,719,731</u>	<u>\$ 2,219,396</u>	<u>\$ 2,929,507</u>	<u>\$ 839,608</u>	<u>\$ 13,708,242</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balances - Total Governmental Funds	\$ (3,843,433)
Amounts reported for governmental activities in the statement of activities are different because:	
Unavailable taxes are not recognized in the fund statements because they are not current financial resources, but they are recognized in the statement of activities	12,791
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives.	4,367,299
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services	(1,392,723)
Pension liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Single-employer Police & Fire Fund	(90,969)
Cost-sharing County Employees Retirement System	1,737,200
OPEB liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Cost-sharing County Employees Retirement System	(291,158)
Health insurance claims that have been incurred, but not reported as of June 30, are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	85,795
Compensated absences are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	(94,929)
Bond and lease payments are recognized as expenditures of current financial resources in the fund financial statement, but are reductions of liabilities in the statement of net position.	157,161
Change in Net Position of Governmental Activities	\$ <u><u>647,034</u></u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	GENERAL FUND			VARIANCE
	BUDGETED AMOUNTS		ACTUAL	Favorable
	ORIGINAL	FINAL		(Unfavorable)
REVENUES:				
Taxes	\$ 16,421,000	\$ 16,421,000	\$ 16,531,508	\$ 110,508
Licenses, Franchise & Permits	1,185,000	1,185,000	1,609,702	424,702
Charges for Services	1,505,000	1,505,000	1,550,073	45,073
Fines	100	100	285	185
Intergovernmental	2,799,350	2,799,350	2,564,482	(234,868)
Investment Income	40,000	40,000	246,759	206,759
Other	153,500	153,500	99,455	(54,045)
TOTAL REVENUES	22,103,950	22,103,950	22,602,264	498,314
EXPENDITURES:				
General Government	4,308,213	4,308,213	5,121,693	(813,480)
Central Communications	1,354,809	1,354,809	1,405,263	(50,454)
Police Department	5,501,676	5,501,676	5,871,165	(369,489)
Fire Department	6,719,966	6,719,966	5,656,061	1,063,905
EMS Division	3,665,606	3,665,606	3,227,253	438,353
Public Works	1,536,720	1,536,720	1,457,638	79,082
Intergovernmental	1,456,056	1,456,056	638,889	817,167
Capital	-	-	112,058	(112,058)
TOTAL EXPENDITURES	24,543,046	24,543,046	23,490,020	1,053,026
Excess (Deficit) of Revenues over Expenditures	(2,439,096)	(2,439,096)	(887,756)	1,551,340
OTHER FINANCING SOURCES (USES):				
Gain or loss on sale of capital assets	25,000	25,000	-	25,000
Operating transfers in	2,500,000	2,500,000	-	2,500,000
Operating transfers out	-	-	(58,602)	(58,602)
TOTAL OTHER FINANCING SOURCES (USES):	2,525,000	2,525,000	(58,602)	2,466,398
Net Change in Fund Balance	85,904	85,904	(946,358)	4,017,738
Fund Balance June 30, 2022	8,666,089	8,666,089	8,666,089	-
Fund Balance June 30, 2023	\$ 8,751,993	\$ 8,751,993	\$ 7,719,731	\$ 4,017,738

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	SPECIAL REVENUE FUND (CAPITAL EQUIPMENT FUND)			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 1,250,000	\$ 1,250,000	\$ 1,285,033	\$ 35,033
Intergovernmental	85,000	85,000	165,650	80,650
Investment Income	18,000	18,000	112,275	94,275
Other	10,000	10,000	14,656	4,656
TOTAL REVENUES	<u>1,363,000</u>	<u>1,363,000</u>	<u>1,577,614</u>	<u>214,614</u>
EXPENDITURES:				
City commission	5,000	5,000	2,400	2,600
Administration	134,000	134,000	4,705	129,295
Police department	340,525	340,525	8,899	331,626
Capital	8,201,326	8,201,326	3,296,814	4,904,512
Debt service principal	169,680	169,680	157,161	12,519
Debt service interest	38,675	38,675	38,675	-
TOTAL EXPENDITURES	<u>8,889,206</u>	<u>8,889,206</u>	<u>3,508,654</u>	<u>5,380,552</u>
Excess (Deficit) of Revenues over Expenditures	<u>(7,526,206)</u>	<u>(7,526,206)</u>	<u>(1,931,040)</u>	<u>5,595,166</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	2,303,000	2,303,000	903,113	(1,399,887)
Gain/loss on sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>2,303,000</u>	<u>2,303,000</u>	<u>903,113</u>	<u>(1,399,887)</u>
Net Change in Fund Balance	(5,223,206)	(5,223,206)	(1,027,927)	4,195,279
Fund Balance June 30, 2022	<u>3,247,323</u>	<u>3,247,323</u>	<u>3,247,323</u>	<u>-</u>
Fund Balance June 30, 2023	<u>\$ (1,975,883)</u>	<u>\$ (1,975,883)</u>	<u>\$ 2,219,396</u>	<u>\$ 4,195,279</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND (COMPONENT UNIT)
JUNE 30, 2023**

	ENTERPRISE FUND
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 8,589,783
Restricted Cash and Cash Equivalents	761,294
Accrued Interest, Restricted	44
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$111,486	2,415,399
SDC Assessments Receivable	299,809
Other Accounts Receivable	75,300
Materials and Supplies	586,857
Prepaid Expenses	710,976
Total Current Assets	<u>13,439,462</u>
Restricted Assets	
Cash and Cash Equivalents	<u>8,072,550</u>
Total Restricted Assets	8,072,550
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	122,634,014
Land	1,519,050
Construction in Progress	819,138
Total Property, Plant and Equipment	<u>124,972,202</u>
TOTAL ASSETS	\$ <u>146,484,214</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	\$ 1,943,031
OPEB	1,190,254
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ <u>3,133,285</u>
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 318,328
Other Accrued Liabilities	373,861
Customer Deposits	124,416
Accrued Interest Payable	41,037
Current Portion of Long-Term Debt	4,431,938
Total Current Liabilities	<u>5,289,580</u>
NONCURRENT LIABILITIES	
Compensated Absences	412,562
Noncurrent Portion of Long-Term Debt	53,012,536
Net Pension Liability	8,611,056
Net OPEB Liability	2,350,396
Total Noncurrent Liabilities	<u>64,386,550</u>
TOTAL LIABILITIES	\$ <u>69,676,130</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions	\$ 1,335,293
OPEB	1,333,117
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ <u>2,668,410</u>
NET POSITION:	
Net Investment in Capital Assets	\$ 67,527,728
Restricted for Capital Projects (Expendable)	7,040,000
Restricted for Bond Debt Service (Expendable)	1,793,845
Unrestricted	911,386
TOTAL NET POSITION	\$ <u>77,272,959</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND (COMPONENT UNIT)
FOR THE YEAR ENDED JUNE 30, 2023

	ENTERPRISE FUND
OPERATING REVENUES:	
Water	\$ 6,318,435
Wastewater	10,095,504
Solid Waste	4,131,801
Transfer Station	132,026
TOTAL OPERATING REVENUES	<u>20,677,766</u>
OPERATING EXPENSES:	
Administrative	2,425,804
Solid Waste	2,199,570
Water	5,136,901
Wastewater	7,568,450
Vehicle Maintenance	159,376
TOTAL OPERATING EXPENSES	<u>17,490,101</u>
Operating Income (Loss)	3,187,665
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	71,342
Interest Expense	(1,482,470)
Other Income	193,349
Gain on Sale of Capital Assets	98,904
Amortization Expense of Bond Discount	(18,648)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(1,137,523)</u>
Net Income (Loss) before Capital Grants & Contributions	2,050,142
Capital Contributions	<u>743,790</u>
Change in Net Position	2,793,932
Net Position, Beginning of Year	<u>74,479,027</u>
Net Positon, End of Year	<u><u>\$ 77,272,959</u></u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (COMPONENT UNIT)
FOR THE YEAR ENDED JUNE 30, 2023**

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 20,615,806
Payments to Suppliers	(6,047,265)
Payments to Employees	(5,740,633)
Other Receipts (Payments)	<u>(3,043)</u>
Net Cash Provided (Used) by Operating Activities	<u>8,824,865</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	268,676
Principal Payments	(4,096,174)
Interest Payments	(1,482,470)
Purchase of Property, Plant and Equipment	(2,267,413)
Contributed Capital Received	743,790
Cash from Other Income	<u>193,349</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(6,640,242)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash from Interest	<u>71,360</u>
Net Cash Provided (Used) by Investing Activities	<u>71,360</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,255,983
Cash and Cash Equivalents, Beginning of Year	<u>15,167,644</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 17,423,627</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and Cash Equivalents - Unrestricted	8,589,782
Cash and Cash Equivalents - Restricted	761,294
Investments - Restricted	<u>8,072,551</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 17,423,627</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 3,187,665
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities:	
Depreciation/Amortization	5,874,201
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Accounts Receivable, Customers	35,883
SDC Assessments Receivable	(97,000)
Other Accounts Receivable	(3,043)
Material and Supplies	(43,108)
Prepaid Expenses	(83,853)
Deferred Outflows of Resources	(539,166)
Accounts Payable	41,223
Accrued Liabilities	87,027
Net Pension Liability	590,638
Net OPEB Liability	(57,331)
Compensated Absences	(50,888)
Accrued Interest Payable	(4,090)
Deferred Inflows of Resources	(115,070)
Customer Deposits	<u>(844)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 8,822,244</u></u>
Supplemental Information, Noncash Transactions	
Donated Capital assets	\$ <u>439,845</u>
Depreciation and Amortization Expense	\$ <u>5,892,849</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2023**

	<u>PENSION TRUST</u>	<u>CUSTODIAL FUNDS</u>
ASSETS		
Cash and Cash Equivalents	\$ 20,957	\$ 39,229
Investments	793,836	-
Accrued Investment Income	<u>1,819</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 816,612</u>	<u>\$ 39,229</u>
LIABILITIES		
Accounts Payable	\$ 933	\$ -
Due to Member Agencies	<u>-</u>	<u>39,229</u>
TOTAL LIABILITIES	<u>\$ 933</u>	<u>\$ 39,229</u>
FIDUCIARY NET POSITION	<u>\$ 815,679</u>	

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2023**

	PENSION TRUST	CUSTODIAL FUNDS
ADDITIONS:		
Contributions	\$ 75,504	\$ 500
Investment Income:		
Interest	13,543	1,906
Net Appreciation (Depreciation) in Fair Value of Investments	(6,037)	-
Gain (Loss) on Sale of Investments	-	-
Less: Investment Expense	<u>(3,853)</u>	<u>-</u>
Net Investment Income	<u>3,653</u>	<u>1,906</u>
Total Additions	79,157	2,406
DEDUCTIONS:		
Benefits	138,576	-
Program Expenses	-	35,892
HRA Benefits	561	-
Taxes	<u>(4,440)</u>	<u>-</u>
Total Deductions	134,697	35,892
Change in Net Position	(55,540)	(33,486)
Net Position June 30, 2022	<u>871,219</u>	<u>72,715</u>
Net Position June 30, 2023	<u><u>\$ 815,679</u></u>	<u><u>\$ 39,229</u></u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Winchester, Kentucky was incorporated and founded in 1793, and has a population of 18,368 based on the 2010 census and is the County Seat of Clark County, Kentucky. The City is a Kentucky Municipal Corporation governed and operated under a manager/commission form of Government with a five-member city commission comprised of the Mayor and four city commissioners.

The financial statements of the City of Winchester, Kentucky, (the City), have been prepared in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies of the City are described below.

THE FINANCIAL REPORTING ENTITY

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) which may or may not fall within the City's oversight and control and, as such, be included within the City's financial statements. These determinations are based on the provisions of GASB Statement 14, *The Financial Reporting Entity*, amended by GASB Statement 61, *The Financial Reporting Entity: Omnibus*, which focus on the concept of financial accountability, fiscal dependence, and the financial benefits or burdens on the primary government. The basic criterion for including Winchester Municipal Utilities (WMU) as a component unit within the City's reporting entity is the exercise of oversight responsibility by Winchester's Board of Commissioners and the city's potential obligation for the WMU bonded indebtedness.

The relative importance of fiscal accountability must be evaluated in light of specific circumstances. The following is a brief review of each of the potential component units addressed in defining the City's reporting entity:

1. INCLUDED WITHIN THE ENTITY:
 - (a) Winchester Municipal Utilities Commission (WMU) - The City has the following oversight responsibilities: Appointment and removal of Board members, approval of utility rates, approval of issuance and sale of bonds, and the sale or purchase of land. The basic financial statements have been included in the City's reporting entity as the discretely-presented component unit.
 - (b) Custodial Funds:
 - i. Ky Regional Cable Commission—The City provides bookkeeping services for the Ky Regional Cable Commission but exercises no administrative oversight for this organization. KRCC is a governmental association of several cities and counties in central Kentucky that work together to monitor legislative actions related to cable television services provided within their jurisdictions. This fund was closed and transferred to the City of Nicholasville, KY in the current year.
 - ii. Urban Renewal—The City provides bookkeeping services for Urban Renewal, a nonprofit organization that works with other governmental entities in Clark County to improve residential and commercial districts. The City does not exercise any administrative oversight for this organization.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. EXCLUDED FROM THE ENTITY:

- (a) The following joint city/county entities are not included in the City's reporting entity because of shared oversight responsibilities: Winchester/Clark County Planning and Zoning Commission, Winchester/Clark County Parks and Recreation Board, Clark County/Winchester Heritage Commission, Winchester/Clark County Recreational, Tourist and Convention Commission, Winchester/Clark County Industrial Development Authority, Winchester/Clark County Board of Adjustment, Winchester Historic Preservation Commission, Winchester/Clark County Appeals Board and the Municipal Cemetery Board.
- (b) Housing Authority of Winchester and Community Development Agency - The appointment of the Governing Boards and the scope of public service are not considered an adequate demonstration of oversight and control. The City has no responsibility for the budgets, debts or financing deficits for either the Housing Authority of Winchester or Urban Renewal and Community Development Agency.

Further information regarding these agencies, their financial statements, and/or operations may be obtained by contacting the agencies directly.

Component Unit – WMU

Winchester Municipal Utilities (WMU) is a discretely-presented component unit of the City of Winchester, Kentucky and is accounted for as a governmental enterprise fund. The purpose of WMU is to operate the City's water, sewer and solid waste utility services. It is financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The accounts are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

BASIS OF PRESENTATION

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues that are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The City maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. Fund statements distinguish between major and nonmajor funds. Major funds meet certain thresholds required by GASB or management has determined that accountability merits separate reporting as a major fund. A description along with the restrictions associated with each class of funds is as follows:

A. Governmental Fund Types

The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. The General is always reported as a major fund.

The special revenue funds account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City’s special revenue funds include funds for tax resources that are restricted to specific purposes as well as the sources and uses of federal, state, and local intergovernmental programs and grants. The Capital Equipment Fund and Federal and State Grant Fund are reported as a major funds, and all other special revenue funds are reported as nonmajor.

B. Proprietary Funds (Enterprise Fund)

The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (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.

The City’s enterprise fund is used to account for the operations of the discretely presented component unit, Winchester Municipal Utilities.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fiduciary Fund Type (includes Pension Trust and Custodial Funds).

The measurement focus of the Winchester Policemen's and Firefighters' Pension Trust fund is similar to proprietary funds, using the accrual basis of accounting. Reporting for this fund has been revised to include the requirements of GASBS No. 67, *Financial Reporting for Pension Plans*, and GASBS No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The custodial funds are purely custodial (assets equal liabilities) and thus, do not involve measurement of results of operations.

The pension trust fund is used to account for assets held by the City in a trustee capacity for former employees. The custodial funds account for revenues and expenses of the Kentucky Regional Cable Commission (KRCC) and Urban Renewal. The City of Winchester provides the administrative bookkeeping services for KRCC and Urban Renewal.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the 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. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

1. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. The proprietary fund utilizes an "economic resources" measurement focus.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using 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. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the fund financial statements, governmental funds and custodial funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes 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.

Revenues from local sources consist primarily of payroll, insurance premium and property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. These revenues are recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and when such funds are received, they are recorded as deferred revenues until earned.

BUDGETARY PROCESS

The City Commission annually adopts the Budget Ordinance for General Fund, Capital Equipment Fund, Municipal Road Aid Fund, LGEA Fund and the Federal and State Grant Funds. Budgetary control is legally maintained at the department level. In the accompanying financial statements and supplementary information, the following line items are grouped for budget purposes under the Administration Department: City Commission, City Attorney, City Manager, Finance Department, Planning Department, Engineering, Administration, and Main Street.

The City's budget ordinance provides transfer authority to the City Manager for budgeted amounts within departments of any fund. Any revisions that alter the total expenditures of any department of any fund must be approved by the City Commission.

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year. The budgets adopted for the above funds are on the modified accrual basis which is a method that is consistent with generally accepted account principles (GAAP). All appropriations lapse at year-end.

CASH, CASH EQUIVALENTS AND INVESTMENTS

The City and WMU consider demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments held for the Winchester Policemen's & Firefighters' Pension Fund are managed by PNC Institutional Asset Management. All investments are US Treasury notes or bonds and are reported at estimated fair value based on quoted sales prices of these securities.

For the purposes of the Statement of Cash Flows, WMU considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

WMU invests resources that are restricted by the terms of the bond indentures in money-market funds. Money-market funds are short-term, highly liquid debt instruments, including commercial paper, bankers acceptances. The money market funds in the WMU investment portfolio include funds that are invested in short term cash and United State backed securities. GASB Statement 31, as amended, provides that governmental entities may report money-market funds at amortized costs. Since these funds are highly liquid, WMU's investments are reported as "cash equivalents" on the statement of net position and reported at amortized costs.

Current Restricted Cash Equivalents are set aside to provide resources for bond and interest payments within the next six months. Noncurrent Restricted Cash Equivalents are set aside to comply with the other provisions of the revenue bond indentures for debt service, depreciation, and capital maintenance as described in Note 3.

ACCOUNTS RECEIVABLE—COMPONENT UNIT (WMU)

Accounts receivable - Customers, are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. An adjustment to an allowance for doubtful accounts is based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2023, \$61,200 were written off as uncollectible.

SDC assessments and other receivables are stated at the amount management expects to collect from outstanding balances and management expects to fully collect all of these receivables.

INVENTORIES AND PREPAIDS

Inventories in the component unit consist of expendable supplies held for consumption stated on a first-in, first-out basis. Inventories are reported at cost and then recorded as expenditures at the time individual inventory items are used.

Prepaid expenses record payments to vendors that benefit future reporting periods on the consumption basis. Prepaid items include only insurance premiums. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS—COMPONENT UNIT (WMU)

The use of certain assets of enterprise funds is restricted by specific provisions of bond resolutions and agreements with various parties. Assets so designated are identified as restricted assets on the statement of net position. When both restricted and unrestricted resources are available for use, it is WMU's policy to use restricted resources first, and then unrestricted resources as they are needed. Restricted assets are classified as noncurrent if they are for acquisition or construction of capital assets, for liquidation of long-term debt, or are for other current operations.

CAPITAL ASSETS

Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position.

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition values as of the date received. Acquisition value is defined by GASB Statement No. 72, as amended, and reflects the price that would be paid to acquire an asset with equivalent service potential. The City has used contractors' cost, a level 1 input, to determine acquisition value at the date when developers contribute infrastructure improvements to the City. Improvements are capitalized; however, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Building	5-45 years
Infrastructure	20 -35 years
Machinery & Equipment	5-30 years
Transport Equipment	5-28 years
Furniture and Fixtures	5-48 years

CAPITAL ASSETS—COMPONENT UNIT (WMU)

Property, plant, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Donated capital assets are recorded at estimated acquisition value at the date of donation. Acquisition value is defined by GASB Statement No. 72, as amended, and reflects the price that would be paid to acquire an asset with equivalent service potential. WMU has used contractors' cost, a level 1 input, to determine acquisition value at the date when developers contribute infrastructure improvements to WMU. WMU's capitalization policy is \$500.

Major outlays are capitalized when constructed assets are completed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized

Assets under capitalized lease obligations are recorded at the discounted present value of the future minimum lease payments at the inception of the respective leases. The amounts capitalized are being amortized by the straight-line method over the lesser of the term of the lease or the estimated life of the asset. Amortization of these assets is included in depreciation expense.

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned, but unused sick leave which will be paid to employees upon separation from the City's service. In governmental funds, the cost of sick leave is recognized when payments are made to employees. In the government-wide financial statements, a long-term liability for accrued sick leave has been recorded representing the City's commitment to fund such costs from future operations.

Accumulated vacation, sick leave and compensatory time for WMU are recorded as an expense and liability as these benefits accrue to employees in accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board.

BOND AMORTIZATION COSTS—COMPONENT UNIT (WMU)

Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense for bond discount as of June 30, 2023, was \$18,648.

INTEREST-COMPONENT UNIT (WMU)

Interest is charged to expense as incurred. For the years ended June 30, 2023 total interest incurred and expensed was \$1,482,470.

LONG-TERM DEBT

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of notes payable, accrued compensated absences, retirement benefits and capital lease agreements.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements. Long-term liabilities for pensions are not reported in the governmental funds unless those liabilities are reasonably expected to be repaid from available expendable financial resources, in other words, due and payable as of the year-end.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSIONS

GASB Statement No. 68 requires recognition of the employer's (the City) obligation for the net long-term pension liabilities, deferred inflows of resources, deferred outflows of resources, and pension expense associated with both the cost-sharing and single-employer plans offered to City employees. Statement No. 68 also prescribes the accounting and reporting requirements for measuring and reporting these liabilities. The City reports its proportionate share of the collective balances and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by County Employees Retirement Systems, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 12—Pension Plans. KPPA publishes a CAFR that includes the CERS plans which is available on their website at <https://www.kyret.ky.gov/publications/pages/annual-report.aspx>

PENSIONS—WMU

GASB Statement No. 68 also requires WMU to report its proportionate share of the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense. Information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position is based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. This plan is the same plan used by the City. More information on pensions is available in Note 12—Pension Plans.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Beginning in fiscal year 2019, the City implemented GASB Statement No. 75, which requires recognition of the employer's (the City) obligation for the net long-term OPEB liabilities, deferred inflows of resources, deferred outflows of resources, and OPEB expense associated with both the cost-sharing and single-employer plans offered to City employees. The City reports its proportionate share of the collective balances for the cost-sharing plan and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 20—Other Postemployment Benefit Plans. OPEB plans are included in the KPPA CAFR published on their website at <https://www.kyret.ky.gov/publications/pages/annual-report.aspx>.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)—WMU

WMU also implemented GASB Statement No. 75 for the fiscal year ended June 30, 2019. WMU reports its proportionate share of the collective net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. This plan is the same plan used by the City. More information on pensions is available in Note 20—Other Postemployment Benefit Plans.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERFUND TRANSFERS

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NET POSITION

Government-wide Statements - Governmental entities report the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources as “net position”.

Net position is displayed in three components:

1. Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. In addition, any balances in deferred outflows or inflows of resources that are attributable to either capital assets or capital-related debt is also included with the net investment in capital assets component.
2. Restricted net position—Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net position—All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements - Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Proprietary fund equity is classified the same as the net position balances that are reported in the government-wide statements. Governmental fund balances are displayed in the following components:

- a) Nonspendable fund balance - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- b) Restricted fund balance - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. \$3,223,526 was restricted for MAPS, LGEA, room tax, and federal and state funds at June 30, 2023.
- c) Committed fund balance – amounts constrained to specific purposes by the City itself, using its decision-making authority to be reported as committed, amounts cannot be used for any other purpose unless the city Commission votes to remove or change the constraint. A Commission resolution is required to commit funds. At June 30, 2023, \$362,939 was committed for the self-insurance program in the General fund. \$2,219,396 was committed for capital projects in the Capital Equipment fund and \$545,589 was committed in nonmajor projects funds for various projects.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- d) Assigned fund balance - amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Manager has the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund May also include amounts that have been appropriated for expenditures in the budget for the City's subsequent fiscal year. At June 30, 2023, \$6,103 was assigned to the Splash Pad project. No assigned amounts were set aside for the FY2023 budget because a surplus was budgeted for the next year.
- e) Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Net Position—Component Unit (WMU)

Net position represents the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. In addition, any balances in deferred outflows or inflows of resources that are attributable to either capital assets or capital-related debt is also included with the net investment in capital assets component.

If there are unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Net position is reported as restricted when constraints are placed on net positions use through external constraints imposed by creditors (example: debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Net positions that do not meet the definition of "restricted" or "net investment in capital assets", are considered unrestricted.

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for FY2023 were levied on the assessed property located in the City of Winchester as of the preceding January 1. The assessments are determined by the Clark County Property Valuation Administrator in accordance with Kentucky Revised Statutes. Taxes were levied on October 1, 2022 and were due December 3, 2022. Taxes unpaid after December 3, 2022 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Therefore, \$42,841 is reported as deferred inflows of resources in the governmental funds at June 30, 2023, since these amounts are estimated to be collected after August 30, 2023. Based on collection histories, the City has provided at June 30, 2023, an allowance for uncollectible property taxes of (\$76,597) has been recorded. The net receivable (\$47,111) is reported in both the governmentwide and governmental fund financial statements.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING & NONOPERATING REVENUES & EXPENSES—COMPONENT UNIT (WMU)

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing, and delivering goods in connection with WMU's principal ongoing operations. The principal operating revenues of WMU are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)

WMU accepts utility installations built by contractors upon inspection. The utility installations are added to fixed assets and contributed capital at contractor's cost, which approximates the price that would be paid to acquire an asset with equivalent service potential (acquisition value), as required by GASB Statement No. 72, as amended.

CAPITAL AND OPERATING GRANTS AND SUBSIDIES—COMPONENT UNIT (WMU)

Operating grants and subsidies that may be used to pay operating expenses are recorded as other income. Grants that are restricted to the purchase of property, plant and equipment are recorded as contributed capital.

TAP FEES—COMPONENT UNIT (WMU)

Tap Fees are restricted by ordinance for the use of capital improvements.

SYSTEM DEVELOPMENT CHARGES—COMPONENT UNIT (WMU)

WMU assesses system development charges to developers as a means to help finance new construction of systems required to facilitate growth. The charges are restricted by policy for capital construction.

JOINT VENTURE

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City and WMU participate in the following joint venture:

Clark County Geographic Information System Consortium (CCGIS) is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. The city contributed \$91,029 for the year ended June 30, 2023. WMU contributed \$91,028 for the year ended June 30, 2023. As of June 30, 2023 the Consortium owed WMU \$0. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASE LIABILITIES

The lease liability is recognized at the commencement of the lease term, unless the lease is a short-term lease, below the lease capitalization threshold of \$5,000, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives) based on a borrowing rate specified in the contract or implicit rate. The lease term includes the noncancelable period of the lease and extensions the City is reasonably certain to exercise. The City monitors changes in circumstances that are expected to significantly affect the amount of a lease liability that may require a remeasurement of its lease.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2023. This standard will require similar recognition for right-to-use subscription intangible assets and a corresponding subscription liability that is provided for long-term leases in GASBS No. 87. The City reviewed its current IT subscription services to evaluate the impact of this standard, the City had no agreements greater than one year in term. This standard did not have a material effect on the financial statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, effective for fiscal years beginning after June 15, 2022 (457 plan reporting). This standard replaces the guidance in GASBS No. 32, the current standard for 457 plan reporting. This standard was adopted by the city in the current year and did not have a material effect on the financial statements

In June 2023, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, that will be effective for these types of changes in fiscal years beginning after June 15, 2023. The City will apply this guidance, when appropriate.

In June 2023, the GASB issued Statement No. 101, *Compensated Absences*, effective for fiscal years beginning after December 15, 2023 (the City's 2025 fiscal year). This standard revises some definitions for compensated absences and consolidates guidance for all types of leave to a single accounting recognition. This standard is not likely to have a material effect on the City's financial statements since they only provide one type of leave that is already recognized using the principles in GASBS No. 101.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the governmental financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 - DEPOSITS AND INVESTMENTS

1. **DEPOSITS** - It is the City's policy for deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. All of the City's deposits were insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state-chartered banks insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks providing such institutions pledge obligations of the United States government or its agencies as security. As of June 30, 2023, the City is in compliance with this requirement.

2. **INVESTMENTS** - The City reports its' Pension Fund Investments under the provisions of Government Auditing Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The provisions of this statement and GASB Statement No. 72 require investments to be reported at fair value.

Investments	Fair Value	Cost
Money Market Mutual Fund	\$ 154,239	\$ 154,239
U.S. Government Securities	639,597	680,972
Total Investments	<u>\$ 793,836</u>	<u>\$ 835,211</u>

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the City will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The City does not have a formal policy for custodial credit risk. However, all investments are held in safekeeping by an external custodian, PNC Bank in Louisville, KY in the City's name.

Credit Risk

State law limits investments in accordance with KRS 95.600 "Pension Fund Investments". The City has no investment policy that would further limit its investment choices. As of June 30, 2023, the City's investments in money market mutual funds were unrated.

3. **WINCHESTER MUNICIPAL UTILITIES INVESTMENTS** - Investments are carried at cost since all WMU investments are held in interest-bearing checking accounts or money market funds with maturities of 90 days or less. The majority of the investments are restricted as to use.

WMU's investment policy conforms to the restrictions outlined in KRS 66.480. WMU deposits its funds in banks insured by FDIC. Investments include short term cash securities and United States backed securities. Collateral is required for all deposits in excess of FDIC at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky municipal bonds.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. WMU does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the exposure of WMU's deposits and investments to this risk, using the segmented time distribution model is as follows:

06/30/23 Type	Fair Value	Maturities (in Years)			
		< Than 1	1 - 5	6 - 10	> Than 10
Cash and Cash Equivalents	\$ 17,423,627	\$ 17,423,627	\$ 0	\$ 0	\$ 0
Total	\$ 17,423,627	\$ 17,423,627	\$ 0	\$ 0	\$ 0

Credit Risk

This risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk exposure. WMU has no formal policy on managing credit risk; however, Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies and shares in savings and loan associations insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks provided such institutions pledge obligations of the United States government or its agencies as security. Presented below is the minimum rating required for each type of deposit and investment:

06/30/23 Type	Fair Value	Ratings			
		AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 17,423,627	\$ 0	\$ 0	\$ 0	\$ 17,423,627
Total	\$ 17,423,627	\$ 0	\$ 0	\$ 0	\$ 17,423,627

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, WMU will not be able to recover the value of its deposits and investments that are in possession of an outside party. WMU has no formal policy for custodial credit risk; however, as of June 30, 2023 and 2022, all deposits and investments were either fully collateralized by federal depository insurance or by the pledging institution in WMU's name or were held in a bank's trust department in the City of Winchester's name, the primary government of the component unit, WMU.

NOTE 3 – WMU RESTRICTED ASSETS

The Bond Ordinances require the creation of various separate deposit accounts designated for a specific purpose in accordance with the ordinance. A brief description of each required account is as follows:

1. Revenue Account—All income to WMU is deposited to the Revenue Account and then transferred to the other ordinance accounts as listed below.
2. Revenue Account—All income to WMU is deposited to the Revenue Account and then transferred to the other ordinance accounts as listed below.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 – WMU RESTRICTED ASSETS (CONTINUED)

3. Bond Redemption Account—The Bond Redemption Account was established to provide a source of funds for the payment of the bond principal and interest due within the current year. By the 20th day of each month funds equal to the total of one-sixth of the semi-annual interest payment plus one-twelfth of the next annual bond principal payment are to be transferred to the account.
4. Reserve Account—The Reserve Account was established to provide funds for the payment of debt based on the least of three provisions: a) maximum annual principal and interest, b) 125% of the average annual principal and interest or c) 10% of bond proceeds.
5. Depreciation Account--The Depreciation Account was established to provide funds for extraordinary repairs, improvements and expansion. WMU is required to fund 12% of the annual gross revenues or \$42,000, whichever is greater annually into the account.
6. Operation and Maintenance Account—The Operation and Maintenance Account was established to pay the reasonable necessary costs of operating, maintaining and repairing of the systems.

The restricted assets in the accompanying financial statements are restricted as to use by ordinance or by external parties. A schedule of restricted assets at June 30, 2023, follows:

	<u>6/30/23</u>
Restricted by Ordinance:	
Bond Redemption Account	\$ 761,294
Reserve Accounts	0
Depreciation Account	6,334,086
Subtotal	<u>7,095,380</u>
Other Restricted Accounts:	
SDC Water Fund	228,908
SDC Wastewater Fund	197,394
Customer Deposits	139,559
KIA Reserve	1,032,551
Water Improvements	0
Capital Accum-Water	132,521
Capital Accum–Wastewater	8,531
Total	<u>\$ 8,834,844</u>
Current Restricted	<u>\$ 761,294</u>
Noncurrent Restricted	<u>\$ 8,072,550</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 – PROPERTY PLANT AND EQUIPMENT

The following is a summary of changes in capital assets during the fiscal year:

	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Governmental Activities:				
Non-depreciable capital assets:				
Construction in progress	\$ 2,378,609	\$ 2,494,835	\$ (1,340,842)	\$ 3,532,602
Land	2,146,683	-	-	2,146,683
Total Non-depreciable capital assets	4,525,292	2,494,835	(1,340,842)	5,679,285
Depreciable capital assets:				
Buildings	6,716,108	214,285		6,930,393
Vehicles	7,591,522	1,255,390	(95,554)	8,751,358
Furniture & fixtures	425,187	15,372	(4,870)	435,689
Equipment	6,302,321	342,797	(19,613)	6,625,505
Infrastructure	25,371,791	44,619	1,340,842	26,757,252
Total Depreciable capital assets	46,406,929	1,872,463	1,220,805	49,500,197
Less accumulated depreciation:				
Buildings	(4,090,695)	(232,281)	-	(4,322,976)
Vehicles	(6,157,095)	(592,309)	95,554	(6,653,850)
Furniture & fixtures	(415,120)	(5,743)	4,870	(415,993)
Equipment	(5,932,938)	(163,974)	19,613	(6,077,299)
Infrastructure	(19,546,848)	(398,416)	-	(19,945,264)
Total accumulated depreciation	(36,142,697)	(1,392,723)	120,037	(37,415,382)
Total Depreciable capital assets, net	10,264,232	479,740	1,340,842	12,084,815
Total Governmental Activities, net	\$ 14,789,524	\$ 2,974,575	\$ -	\$ 17,764,100

Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Building	5-45 years
Infrastructure	20-35 years
Machinery & Equipment	5-30 years
Transport Equipment	5-28 years
Furniture and Fixtures	5-48 years

Depreciation expense for governmental activities was charged to the following functions:

General Government	\$ 591,293
Public Protection	
Police	165,825
Fire protection	422,522
EMS	61,681
Public Works	151,402
	<u>\$ 1,392,723</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

WMU's systems consist of the following:

6/30/2023	Beginning	Additions	Disposals	Ending
Non-depreciable Assets:				
Land	\$ 1,519,050	\$ -	\$ -	\$ 1,519,050
Construction in Progress	1,458,171	(639,033)	-	819,138
Total Non-depreciable Assets	<u>\$ 2,977,221</u>	<u>\$ (639,033)</u>	<u>\$ -</u>	<u>\$ 2,338,188</u>
Depreciable Assets:				
Administrative	\$ 3,350,447	\$ 62,625	\$ (14,638)	\$ 3,398,435
Water System	86,142,946	26,967,655	(25,699,141)	87,411,460
Wastewater System	121,101,422	5,879,759	(5,073,175)	121,908,006
Solid Waste	8,353,740	614,175	(133,197)	8,834,717
Vehicle Maintenance	486,800	-	-	486,800
Equipment Capital Lease	7,500	-	-	7,500
Subtotal	<u>219,442,854</u>	<u>33,524,214</u>	<u>(30,920,151)</u>	<u>222,046,918</u>
Accumulated Depreciation:				
Administrative	(2,212,939)	(88,803)	14,638	(2,287,105)
Water System	(21,942,916)	(2,209,973)	1	(24,152,887)
Wastewater System	(45,856,731)	(3,278,216)	2,878	(49,132,072)
Solid Waste	(4,026,273)	(289,820)	95,817	(4,220,276)
Vehicle Maintenance	(382,419)	(7,388)	-	(389,807)
Prior Years Accumulated	(19,230,756)	-	-	(19,230,756)
Subtotal	<u>(93,652,034)</u>	<u>(5,874,201)</u>	<u>113,333</u>	<u>(99,412,904)</u>
Total Net Property, Plant and Equipment	<u>\$ 125,790,820</u>	<u>\$ 27,650,011</u>	<u>\$ (30,806,818)</u>	<u>\$ 122,634,014</u>

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and Concrete	40-50 years
Main Replacement Program	40 years
Equipment	2-7 years
Vehicles	5-10 years

Depreciation expense in total and by function follows:

Function	2023
Administrative	\$ 88,805
Water System	2,209,971
Wastewater System	3,278,216
Solid Waste	289,820
Vehicle Maintenance	7,388
Total Depreciation Expense	<u>\$ 5,874,201</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 — INTERFUND ACTIVITY

Interfund transfers for the year ended June 30, 2023 were as follows:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Federal & State Grants	\$ 58,602	Downtown TIF allocation
Federal & State Grants	Capital Equipment	\$903,113	Capital Expenditures

At June 30, 2023 interfund receivables and payables consisted of the following:

<u>Due From Fund</u>	<u>Due To Fund</u>	<u>Amount</u>	<u>Purpose</u>
Federal & State Grants	Capital Equipment	\$ 353,028	Capital Expenditures

NOTE 6 - COMMITMENTS UNDER SHORT-TERM LEASES

Commitments under short-term lease agreements for office equipment provided for the minimum future rental payments as of June 30, 2023 are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2024	\$18,173

Expenditures for equipment under short-term leases for the year ended June 30, 2023 totaled \$19,526.

NOTE 7 — CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2023 consists of the following:

	<u>Construction in Progress</u>			
	<u>Beginning</u>	<u>Additions</u>	<u>Completions</u>	<u>Ending</u>
Seventh Street	\$ 364,071	\$ 12,376	\$ -	\$ 376,447
Fulton Road	217,094	12,255	-	229,349
Sidewalk Project	-	60,875	60,875	-
Community Splash Pad	534,682	27,517	-	562,199
Lincoln Street	1,262,762	17,205	1,279,967	-
City Hall Renovation	-	145,011	-	145,011
Cook Ave. Salt Building	-	76,597	-	76,597
Fire Department	-	12,000	-	12,000
Town Branch Restoration	-	1,861,540	-	1,861,540
Fifth Street	-	45,827	-	45,827
Storm Water Projects	-	223,633	-	223,633
	<u>\$ 2,378,609</u>	<u>\$ 2,494,836</u>	<u>\$ 1,340,842</u>	<u>\$ 3,532,603</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 - LONG-TERM DEBT

CHANGES IN LONG-TERM DEBT

Governmental long-term liability activity was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Financed Purchases	\$ 920,783	\$ -	\$ 157,161	\$ 763,622	\$ 157,075
Sick Leave	815,939	94,929	-	910,868	98,267
Total Governmental	<u>\$1,736,722</u>	<u>\$94,929</u>	<u>\$ 157,161</u>	<u>\$1,674,490</u>	<u>\$ 255,342</u>

Facilities and equipment under financed purchase agreements in capital assets at June 30, 2023, included the following:

Facilities and Equipment	\$3,663,929
Less: Accumulated Depreciation	<u>2,157,702</u>
Net Value	<u>\$1,506,227</u>

Amortization of facilities and equipment under financed purchase agreements is included with depreciation expense.

FINANCED PURCHASES

The City has three financed purchase agreements as of June 30, 2023. The liability for the financed purchase obligations have been recorded in the government-wide financial statements. These financed purchase agreements have been recorded at the present value of their future minimum payments as of the inception date. Details of the financed purchases are presented below.

Purpose	Date	Interest Rate	Term	Outstanding Balance
Winchester Community Center	5/21/2010	3.48%	20 years	\$ 682,092
2019 Ambulance Remount	7/3/2018	2.89%	4 years	-
Street Sweeper	4/16/2020	2.45%	5 years	81,530
				<u>\$ 763,622</u>

Financed purchase commitments to maturity for the year ending June 20, 2023:

	2024	\$ 165,894
	2025	175,642
	2026	125,724
	2027	123,364
	2028	121,152
	Thereafter	<u>167,411</u>
Total minimum financed purchase payments		879,187
Less interest payments		<u>115,565</u>
Present value of minimum financed purchase payments		<u>\$ 763,622</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT—WMU

WMU issues revenue bonds to finance improvements and extensions to the water and sewer systems. The Winchester Municipal Utilities bonded indebtedness and other long-term notes at June 30, 2023 are summarized as follows:

Description	Rate	Maturity	Original Issue	2023 Total
2012 Issue	2.00-3.75%	07/01/32	7,495,000	3,875,000
2014 Issue	2.00-4.00%	07/01/45	9,915,000	8,125,000
2018 Issue	3.00-4.00%	07/01/42	13,045,000	12,760,000
2021 Issue	1.49%	07/01/31	5,557,703	5,181,843
Less: Unamortized Discount				(341,469)
Total Bonds				29,600,374
KIA-Strodes Creek	1.00%	12/01/28	21,000,000	6,199,970
		Estimate		
KIA-Lower Howards Creek	2.00%	01/01/31	36,600,000	20,114,965
		Estimate		
KIA-Bel-Air	2.00%	01/01/31	1,000,000	295,258
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	143,709
KIA-Vaught Court	2.00%	06/01/31	287,400	113,821
KIA-Hampton Manor	1.75%	06/01/37	\$ 1,249,088	976,365
Total KIA Loans				27,844,088
Total Bonds and KIA Loans				57,444,462
Less: Current Maturities				(4,431,938)
Total Long-Term Debt				\$ 53,012,536

The annual bond and long-term debt service requirements, as of June 30, 2023, are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 4,431,940	\$ 1,410,012	\$ 5,841,952
2025	4,517,997	1,327,436	5,845,433
2026	4,607,603	1,242,566	5,850,169
2027	4,754,014	1,156,885	5,910,899
2028	4,784,641	1,064,310	5,848,951
2029-2033	20,700,553	3,877,539	24,578,092
2034-2038	6,439,184	2,031,368	8,470,552
2039-2043	6,515,000	918,013	7,433,013
2043-2046	1,035,000	62,600	1,097,600
	\$ 57,785,932	\$ 13,090,729	\$ 70,876,661

Series 2011 Bonds

On April 14, 2011, the City issued \$9,010,000 of utilities revenue bonds for WMU secured by a first and prior security interest in any and all right, title and interest of WMU in the portions of the Project (extensions and improvements of the System) that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and any proceeds therefrom. The 2011 bond issues financed the extensions and improvements to the combined and consolidated municipal waterworks, sanitary sewer and solid waste disposal system. The bonds carry an interest rate of 5.2656174% and mature on January 1, 2031. The interest and principal payments are to be made monthly. During the year ended June 30, 2020, this bond issue was partially refunded by the 2020 bond issue. After the refunding, the 2011 bond issue matured on January 1, 2021.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT—WMU (CONTINUED)

Refunding, Series 2012 Bonds

On April 19, 2012, the City issued \$7,495,000 of utilities refunding revenue bonds for WMU to pay off the Series 2002 Bonds. The bonds were secured by a first pledge of a fixed portion of the gross revenues to be derived from the operation of the system, which fixed portion shall be sufficient to pay the principal and interest of the bonds. The 2002 bond issue financed the acquisition, construction and installation of major new municipal sanitary sewer (wastewater) facilities and paying and discharging the outstanding Utilities Revenue Bond Anticipation Note, Series 1997. The bonds carry interest rates of 2.0% to 3.75% and mature on July 1, 2032. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1.

Series 2014 Bonds

On December 23, 2014, the City issued \$9,915,000 of utilities revenue bonds for WMU secured by a first and prior security interest in any and all right, title and interest of WMU in the portions of the Project (extensions and improvements of the System) that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and any proceeds therefrom. The 2014 bond issues financed the extensions and improvements to the combined and consolidated municipal waterworks, sanitary sewer and solid waste disposal system. The bonds carry an interest rate of 2% to 4% and mature on July 1, 2045. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1.

Series 2018 Bonds

On January 2, 2018, the City issued \$13,045,000 of utilities revenue bonds for WMU secured by and payable solely from Pledged Receipts derived from the collection of rates, rental and charges for the services rendered by the City's (WMU) System. The Bonds are further secured by a statutory mortgage lien upon all properties of the System and extensions thereof and all extensions and appurtenances thereto. The 2018 bond issues financed the new water treatment plant. The bonds carry an interest rate of 3% to 4% and mature on July 1, 2042. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1.

Refunding, Series 2020 Bonds

On June 17, 2022, the City issued \$5,557,703 of utilities refunding revenue bonds for WMU to pay down the Series 2011 Bonds. The bonds were secured by, and payable solely from, pledged revenues derived from combined and consolidated water, solid waste and sewer system of the City's (WMU) System. The Bonds are further secured by a statutory mortgage lien upon all properties of the System and extensions thereof and all extensions and appurtenances thereto. The 2011 bond issue financed the extensions and improvements to the combined and consolidated municipal waterworks, sanitary sewer and solid waste disposal system. The bonds carry interest rate of 1.49% and mature on July 1, 2031. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT—WMU (CONTINUED)

KIA – Strodes Creek Loan

On July 1, 2005, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the construction of a new wastewater treatment plant, \$21,000,000. This agreement calls for interest to be paid every six months starting December 1, 2005 at the rate of 1% of the outstanding balance. Principal payments are due to be paid every December 1 and June 1 starting after the wastewater treatment plant goes online. The online date for the plant was July, 2008. Principal payments were due to begin on June 1, 2009, and be due every December 1 and June 1 thereafter until maturity on December 1, 2028.

KIA – Vaught Court Loan

On December 1, 2009, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for construction of the Vaught Court Outfall Sewer Project, \$600,000 with a principal forgiveness of \$312,600 and a loan amount of \$287,400. This agreement calls for interest payments to commence within six months from the first draw of funds estimated to be June 1, 2010 with full principal and interest payments to commence within one year of initiation of operation estimated to be June 1, 2011. During the year ended June 30, 2010, \$312,600 of principal was forgiven and \$69,320 of the loan amount was drawn down. During the year ended June 30, 2011, \$218,080 was drawn down, and the project was completed. The loan carries a 2.00% interest rate, with principal and interest payments due on December 1 and June 1 every year until maturity on June 1, 2030. The loan is required to establish a replacement reserve account where \$1,500 is to be added to the account each December 1 until the balance reaches \$15,000 and is to be maintained for the life of the loan.

KIA – Industrial Elevated Storage Tank

On December 1, 2009, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for construction of an Elevated Storage Tank Rehabilitation, \$741,450 with a principal forgiveness of \$401,124 and a loan amount of \$340,326. This agreement calls for interest payments to commence within six months from the first draw of funds estimated to be June 1, 2010 with full principal and interest payments to commence within one year of initiation of operation estimated to be June 1, 2011. During the year ended June 30, 2010, \$401,124 of principal was forgiven. During the year ended June 30, 2011, \$340,326 was drawn down, and the project was completed. The loan carries a 2.00% interest rate, with principal and interest payments due on December 1 and June 1 every year until maturity on December 1, 2030. The loan is required to establish a replacement reserve account where \$2,000 is to be added to the account each December 1 until the balance reaches \$20,000 and is to be maintained for the life of the loan.

KIA – Lower Howards Creek

On February 5, 2010, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the Lower Howards Creek Wastewater project, \$36,600,000. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation, which was on February 12, 2013. During the year ended June 30, 2014, the final draw of \$999,996 of the loan was drawn down. The loan carries a 2.00% interest rate and matures in twenty years.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT—WMU (CONTINUED)

The loan is required to establish a replacement reserve account where \$91,500 is to be added to the account each December 1 until the balance reaches \$915,000 and is to be maintained for the life of the loan. The Kentucky Infrastructure Authority has made these loans inferior and subordinate to the security interest and source of payment for the Debt Obligations of Winchester Municipal Utilities payable from the revenues of the System outstanding at the time of the execution of the "Assistance Agreement". The Agreement also further states that the Kentucky Infrastructure Authority must be notified no less than thirty days (30), in writing, prior to the issuance of any further debt obligations on parity with the current debt obligations.

KIA – Bel-Air Sanitary

On October 1, 2012, Winchester Municipal Utilities entered into an "Assistance Agreement" with the Kentucky Infrastructure Authority (KIA), to provide funds for the Bel-Air and Westside pump station projects, \$1,000,000. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation estimated to be December 1, 2013. During the year ended June 30, 2014, the final draw of \$59,095 was drawn on the loan. The loan carries a 2.00% interest rate and matures in twenty years. The loan is required to establish a replacement reserve account where \$2,500 is to be added to the account each December 1 until the balance reaches \$25,000 and is to be maintained for the life of the loan.

KIA – Hampton Manor

On March 1, 2017, City of Winchester and Winchester Municipal Utilities entered into an "Assistance Agreement" with the Kentucky Infrastructure Authority (KIA), to provide funds for the Hampton Manor project which replaces and improves 3200 linear feet of aged sanitary sewer collection pipe along with associated manholes, connections and appurtenances, totaling \$1,249,088. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation estimated to be June 1, 2017. The loan carries a 1.75% interest rate and matures June 1, 2037. The loan is required to establish a replacement reserve account where \$3,500 is to be added to the account each December 1 until the balance reaches \$70,000 and is to be maintained for the life of the loan.

Long-Term Debt consists of bonds and other indebtedness for which the changes in the year ended June 30, 2023 are as follows:

6/30/2023 Description	Beginning	Borrowings Additions	Repayments Reductions	Ending	Current
Compensated Absences	\$ 463,450	\$ 0	\$ 50,888	\$ 412,562	\$
Bonds	30,652,586	0	1,052,212	29,600,374	1,375,975
KIA Loan	7,291,146	0	1,091,176	6,199,970	1,102,116
KIA-Lower Howards	21,914,989	0	1,800,024	20,114,965	1,836,268
KIA-Bel-Air	321,679	0	26,421	295,258	26,874
KIA-Storage Tank	161,299	0	17,590	143,709	17,947
KIA-Vaught Court	128,825	0	15,004	113,821	15,305
KIA-Hampton Manor	1,032,827	0	56,462	976,365	57,453
Total Long-Term Debt	\$ <u>61,966,801</u>	\$ <u>0</u>	\$ <u>4,109,777</u>	\$ <u>57,857,024</u>	\$ <u>4,431,938</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 – COMPLIANCE WITH BOND ORDINANCES - WMU

The bonds and KIA loan requires WMU to establish and maintain certain reserves and restricted assets as follows:

Bond Debt Service - Bonds

In the previous year, monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next principal payment shall be set aside monthly so as to accumulate in the Bond Fund in order to pay interest and principal on the bonds. In addition, the Bond Ordinance requires that a specific amount be maintained in the Debt Service Reserve Account defined as the "Reserve Amount." The account is to be reviewed each year and funded based on the least of three factors: 1) maximum annual principal and interest requirement, 2) 125% of the average annual principal and interest requirement or 3) 10% of the outstanding loan proceeds.

In the 2018 Bond Series covenant, WMU entered into an Insurance Agreement with Build America Mutual Assurance Company which guarantees the scheduled payments. The effect of the Insurance Agreement eliminates the bond debt service requirement.

WMU is in compliance with these covenants as of June 30, 2023.

Depreciation Reserve – Bonds and KIA Loan

The Winchester Municipal Utilities is required to transfer 12% of annual gross revenues or \$42,000, whichever is greater, in equal monthly installments to the Depreciation Fund. These funds are to be used for renewals, replacements and/or additions to property, plant and equipment. WMU is in compliance with this covenant as of June 30, 2023.

Interest Coverage Ratio – Bonds and KIA Loan

On April 3, 2012, a new general bond ordinance was adopted that requires Winchester Municipal Utilities to maintain an interest coverage ratio of 1.2 times - annual debt service requirements for bonds and 1.0 times - annual debt service requirements for bonds and KIA loans. Other changes in coverage ratio are noted below in calculation of ratios as shown. The City of Winchester is required by bond ordinance to adjust rates as necessary to maintain such minimum coverage. Computed as follows:

Bonds:	2023
Income Available for Debt Service	\$ 1,929,213
Add: Depreciation and Change in Pension & OPEB Liability	5,753,272
Cash Available for Bond Debt Service	<u>\$ 7,682,485</u>
Annual Debt Service on Bonds	<u>1,945,304</u>
Coverage Ratio	<u>3.95</u>
 KIA:	 2023
Income Available for Debt Service	\$ 1,929,213
Add: Depreciation and Change in Pension & OPEB Liability	5,753,272
Cash Available for Debt Service	<u>\$ 7,682,485</u>
Annual Debt Service on all Debt	<u>5,481,275</u>
Coverage Ratio	<u>1.40</u>

WMU is in compliance with these covenants as of June 30, 2023.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 – FIVE YEAR CAPITAL CONSTRUCTION PLAN – COMPONENT UNIT (WMU)

Winchester Municipal Utilities' five-year capital plan includes major capital construction of new pump station and force mains which are projected to be funded as follows:

Water Utility Improvements	\$ 4,273,548
Wastewater Utility Improvements	25,015,149
Total projected financing requirement	<u>\$ 29,288,697</u>

Winchester Municipal Utilities' five-year capital plan of depreciation funded projects consists of the following annual allocations in addition to other specifically identified projects:

Finance and Administration:	
Copiers	\$ 3,000
Upgrade Local Area Network	15,000
Replace Microcomputers	10,000
Upgrade Office Suite Software	5,000
Field Operation Vehicles	430,000
Solid Waste Collection:	
Cubit Replacement	27,000
Container Replacement	40,000
Replace Compactor Ejector Box	10,000
Solid Waste Recycling	500
Water Treatment Plant Equipment Improvements	150,000
Water Distribution:	
Main Replacement	200,000
Fire Hydrant Replacement	6,000
Gate Value Replacement	20,000
Elevated Storage Tank Rehabilitation	120,000
Meter Change-Out/AMR Equipment	270,000
New Meter Services	100,000
Large Meter Change Out Program	50,000
Wastewater Collection:	
Main Replacement Program	200,000
I&I Rehabilitation	20,000
Rehabilitation of Private Sewers	20,000
Flow Meters	10,000
System Capacity Assurance Program	18,000
Routine Hydraulic Cleaning	60,000
Manhole Rehabilitation	50,000
Wastewater Treatment Plant (SC):	
Replacement of Laboratory Equipment	3,000
Annual Allocation for Equipment Improvements	90,000
Wastewater Solids Processing (SC):	
Annual Allocation for Equipment Improvements	65,000
Wastewater Treatment Plant (LHC)	
Annual Allocation for Solids Equipment/Improvements	90,000
	30,000
Total Annual Allocations for Infrastructure Investment	<u>\$ 2,112,500</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 10 – FIVE YEAR CAPITAL CONSTRUCTION PLAN – COMPONENT UNIT (WMU) – (CONTINUED)

All annual allocation programs are funded in each year of the five-year capital plan.

NOTE 11 – UTILITY REVENUES PLEDGED – COMPONENT UNIT (WMU)

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2012, 2014, 2018, and 2021 bonds and KIA outstanding debt referenced in Note 5. Proceeds from these debt obligations provided financing of the water and wastewater infrastructure, including a new wastewater treatment plant. The debt obligations will be repaid from the previously mentioned utility revenues through the year 2045.

NOTE 12 – PENSION PLANS

The City participates in two separate defined benefit plans for full-time employees. The Policemen's and Firemen's Pension Fund is a single-employer plan and is presented in the financial statements as the Pension Trust Fund. The other pension plan is a multiple-employer cost-sharing plan maintained by the Kentucky Retirement Systems in the County Employees Retirement System (CERS). WMU also participates in the nonhazardous CERS system.

Amounts reported in the City's financial statements include aggregated amounts for each plan. Specific plan amounts are as follows:

<u>Describe</u>	<u>CERS</u>	<u>P&F</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$8,265,535	\$62,477	\$8,328,012	\$1,943,031
Deferred Inflows	\$4,574,960	\$1,117	\$4,576,077	\$1,335,293
Net Pension Liability	\$29,840,073	\$1,634,080	\$31,474,153	\$8,611,056
Pension Expense	(\$1,737,200)	\$90,969	(\$1,646,231)	(\$312,468)

A – POLICEMEN'S AND FIREMEN'S PENSION FUND

Plan Description. The City of Winchester Policemen's and Firemen's Pension Plan is a single-Employer defined benefit pension plan administered by the City of Winchester Policemen's and Firemen's Pension Board. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. It was established pursuant to KRS Sections 95.520 to 95.620. The Plan covered substantially all employees of the City's police and fire departments prior to August 1, 1988. On July 26, 1988, the City adopted Ordinance 18-88, which phased out the Policemen's and Firemen's Pension Plan by restricting future participation to those existing employees electing to remain in the plan who were active as of August 1, 1988, and to employees who were already drawing retirement or disability payments as of August 1, 1988.

Membership Data for the Closed Plan:

Inactive Plan Participants-Retirees and beneficiaries currently receiving benefits	7
Active Plan Participants	0

On February 16, 1989, the City was accepted into the County Employees' Retirement System of the Commonwealth of Kentucky which was enacted by House Bill 398 during the 1988 General Assembly. The acceptance was retroactive to an effective date of August 1, 1988. The Policemen's and Firemen's Pension Plan's actuarial valuation was performed on July 1, 2023, and the report issued by the firm of USI Consulting Group.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 12 – PENSION PLANS (CONTINUED)

A – POLICEMEN’S AND FIREMEN’S PENSION FUND (CONTINUED)

A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board at the Department of Finance, City of Winchester.

The governing board for the City’s Policemen’s and Firemen’s Pension Plan was established under the provisions of KRS 95.520 to 95.620. Pursuant to these requirements, there are four trustees—the mayor, the city treasurer, one member elected by the retired police officers, and one member elected by the retired firefighters. These two members must be retirees of this pension plan. The governing board has the authority to grant an annual cost-of-living adjustment for retiree benefit payments and has historically used the CPI as a benchmark for determining an annual COLA. The actuarial report as of July 1, 2023 included projections based on a zero COLA and a 2% COLA. The COLAs granted for the last five years are listed below:

Date	COLA
July 1, 2023	5.000%
July 1, 2022	5.000%
July 1, 2021	1.400%
July 1, 2020	2.300%
July 1, 2019	1.900%

Pension Plan Investments. The governing board has placed the trust with PNC Institutional Asset Management to invest and manage the trust assets. The president has adopted an investment policy that limits investments to only purchases of U. S. government securities. No formal investment policy has been adopted by the governing board. PNC Institutional Asset Management provides quarterly reports to the governing board. As of June 30, 2023, PNC has invested 19% of the trust in a mutual fund (for cash flow purposes) and 81% in U.S. Treasury securities. As of June 30, 2023, the annual money-weighted rate of return, net of investment expense is 0.48%.

As of June 30, 2023, the US Treasury securities included the following:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Rating</u>	<u>Market Value</u>	<u>Cost</u>
Treasury Notes	0.375%	9/30/2027	AAA	\$31,490	\$31,912
Treasury Notes	0.625%	11/30/2027	AAA	\$12,847	\$13,036
Treasury Notes	0.625%	12/31/2027	AAA	\$18,800	\$19,065
Treasury Notes	0.500%	2/28/2026	AAA	\$89,828	\$98,235
Treasury Notes	0.250%	3/15/2024	AAA	\$33,764	\$34,684
Treasury Notes	1.250%	3/31/2028	AAA	\$31,508	\$31,966
Treasury Notes	0.375%	10/31/2023	AAA	\$34,451	\$34,911
Treasury Notes	2.500%	3/31/2027	AAA	\$1,874	\$1,891
Treasury Notes	3.250%	6/30/2027	AAA	\$31,737	\$32,245
Treasury Notes	1.500%	11/30/2024	AAA	\$104,440	\$110,470
Treasury Notes	0.500%	3/31/2025	AAA	\$185,000	\$201,750
Treasury Notes	1.500%	1/31/2027	AAA	\$13,587	\$13,836
Treasury Notes	1.500%	8/15/2026	AAA	\$50,271	\$56,972

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 – PENSION PLANS (CONTINUED)

A – POLICEMEN’S AND FIREMEN’S PENSION FUND (CONTINUED)

Fair values are determined by PNC Institutional Asset Management based on quoted market prices as of the reporting date.

Components of the Net Pension Liability. The components of the liability of the City for benefits provided through this single-employer plan include the following as of June 30, 2023:

Total Pension Liability	\$2,450,692
Pension Plan’s Fiduciary Net Position	<u>(816,612)</u>
Net Pension Liability	<u>\$1,634,080</u>

Significant Assumptions Used in Actuarial Study. The actuarial analysis, completed as of June 30, 2023, has been based on the demographic estimates for the remaining seven retirees and beneficiaries using the entry age normal funding method as required by GASB Statement Nos. 67 and 68.

- Normal retirement period applied to employees who had completed 20 years of service and obtained the age of 55. The benefit was 50% of monthly salary at time of retirement.
- Mortality rates are based on the Pub-2010 Safety Dataset Amount-Weighted Mortality with generational improvements after year 2010 under Projection Scale MP-2022.
- The actuarial assumptions included an assumption for future COLAs based on a geometric average of the COLAs made during the most recent five years (currently 2.5% per annum).
- The actuarial value of assets was determined at the market value as reported by PNC Bank, Kentucky, Inc. plus a checking account balance.
- The projection of cash flows used to determine the discount rate assumed that employer contributions will be made on the basis of the current funding policy. The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments through this date, and a 20-year high grade municipal bond rate was used for the period thereafter to determine the total pension liability. The discount rate used to measure the total pension liability was 4.13%.
- The actuaries also provide a sensitivity analysis to outline 1% increase/decrease to the current discount rate. These changes in the discount rate would provide the following net pension liabilities:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
	3.13%	4.13%	5.13%
Total Pension Liability	\$2,799,789	\$ 2,450,692	\$ 2,169,182
Plan Fiduciary Net Position	<u>(816,612)</u>	<u>(816,612)</u>	<u>(816,612)</u>
Net Pension Liability	<u>\$1,983,177</u>	<u>\$ 1,634,080</u>	<u>\$ 1,352,570</u>

Schedule of Changes in Net Pension Liability. The following table outlines the changes in the total pension liability, plan fiduciary net position, and net position, along with components of the pension expense for the year ended June 30, 2023.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 – PENSION PLANS (CONTINUED)

A – POLICEMEN’S AND FIREMEN’S PENSION FUND (CONTINUED)

	Increase/(Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Pension Expense
Balances, June 30, 2022	\$ 2,253,853	\$ 872,152	\$ 1,381,701	
Changes for the Year:				
Interest expense	89,220	0	89,220	\$ 89,220
Experience loss (gains)	85,279	0	85,279	85,279
Changes of assumptions	156,059	0	156,059	156,059
Employer contributions	0	75,000	(75,000)	0
Net investment income	0	7,506	(7,506)	0
Expected return on plan investments	0	0	0	(32,709)
Current expense of asset gain/loss	0	0	0	20,822
Benefits paid	(133,719)	(133,719)	0	0
Plan administrative expenses	0	(3,553)	3,553	3,553
Other changes	0	(774)	774	774
Net changes	196,839	(55,540)	252,379	\$ 322,998
Balances, June 30, 2023	\$ 2,450,692	\$ 816,612	\$ 1,634,080	

Pension Expense Deferred Outflows/Inflows. For the year ended June 30, 2023, the recognized pension expense was \$90,969.

At June 30, 2023 the City reported deferred outflows of resources and deferred inflows of resources related to the Winchester Policemen’s and Firemen’s Pension Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	\$ 62,477	\$ 1,117
Total	\$ 62,477	\$ 1,117

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Changes due to assumptions and experience losses (gains) are amortized over the average remaining service period of active and inactive members (0 years of future service is assumed for inactive members for this calculation. Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Policemen’s and Firemen’s Defined Benefit Pensions will be recognized in pension expense as follows:

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 12 – PENSION PLANS (CONTINUED)

A – POLICEMEN’S AND FIREMEN’S PENSION FUND (CONTINUED)

<u>Year ending June 30</u>	
2024	\$ 19,946
2025	\$ 21,062
2026	\$ 15,303
2027	\$ 5,039
2028	\$ -
Thereafter	\$ -

B – PENSION PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM

General information about the County Employees Retirement System (“CERS”)

Plan Description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the County Employees Retirement System (CERS) an agency of the Commonwealth of Kentucky. As of April 1, 2023, Kentucky Revised Statute (“KRS”) Section 78.782 shifted the governance of CERS to a separate Board of Trustees of the County Employees Retirement System. The CERS Board manages the CERS trust, including investment management. KPPA provides the day-to-day administration (KRS 61.505) for accounting and benefit administration for CERS. The Kentucky General Assembly has the authority to establish and amend benefit provisions. The Kentucky Public Pensions Authority issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <https://kyret.ky.gov/publications/pages/default.aspx>.

Benefits Provided

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

NONHAZARDOUS MEMBERS			HAZARDOUS MEMBERS	
Tier 1	Participation date	Before September 1, 2008	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old	Unreduced retirement	Any age with 20 years of service or age 55 with 5 years of service
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age	Reduced retirement	Age 50 with 15 years of service
Tier 2	Participation date	September 1, 2008 - December 31, 2013	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87	Unreduced retirement	Any age with 25 years of service Or age 60 with 5 years of service
	Reduced retirement	At least 10 years service and 60 years old	Reduced retirement	Age 50 with 15 years of service
Tier 3	Participation date	After December 31, 2013	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87	Unreduced retirement	Any age with 25 years of service Or age 60 with 5 years of service
	Reduced retirement	Not available	Reduced retirement	Not available

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 12 – PENSION PLANS (CONTINUED)

B – PENSION PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Cost of living adjustments are provided at the discretion of the General Assembly. In 2013, the General Assembly established funding status thresholds which must be achieved before another COLA can be awarded to retirees. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components.

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Employer Contributions

For the year ended June 30, 2023, employer contributions were established by the County Employees Retirement Systems in December 2021. The governing Board establishes employer contribution rates based on the annual actuarial valuation completed in November each year for the fiscal year beginning the following July 1. For fiscal year 2023, the employer contribution rate for CERS nonhazardous pensions was 23.4% and hazardous pensions was 42.81%. In fiscal year 2022, these rates were 22.78% and 35.60%, respectively. Rates for both 2023 and 2022 reflect the adjustments enacted by the Kentucky General Assembly to phase-in the actuarially determined rates.

Employee Contributions – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability:	
Nonhazardous plan (.092523%)	\$ 6,688,500
Hazardous plan (.767652%)	23,424,573
Total City's proportionate share	<u>\$30,113,073</u>
WMU's proportionate share of the net pension liability (.119118%)	<u>\$ 8,611,056</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 – PENSION PLANS (CONTINUED)

B – PENSION PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The net pension liability for each plan was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022. The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2022, the City's proportion was 0.092523% of the nonhazardous plan and 0.767652% of the hazardous plan. WMU's proportion was 0.119118% of the CERS nonhazardous plan. For the year ended June 30, 2023, the City recognized a decrease in pension expense of \$60,956 for nonhazardous members and \$1,676,244 for hazardous members in CERS. WMU recognized a decrease in expense of \$312,468.

At June 30, 2023, City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Non-hazardous</u> Deferred Outflows of Resources	<u>Hazardous</u> Deferred Outflows of Resources	<u>Total City</u> Deferred Outflows of Resources	<u>WMU</u> Deferred Outflows of Resources	<u>Non-hazardous</u> Deferred Inflows of Resources	<u>Hazardous</u> Deferred Inflows of Resources	<u>Total City</u> Deferred Inflows of Resources	<u>WMU</u> Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,151	\$ 671,624	\$ 678,775	\$ 9,206	\$ 59,564	\$ -	\$ 59,564	\$ 76,685
Changes of assumptions	-	-	-	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	910,105	2,612,992	3,523,097	1,171,707	738,636	2,071,950	2,810,586	950,951
Changes in proportion and differences between City's contributions and proportionate share of contributions	431,879	37,048	468,927	-	11,466	1,693,344	1,704,810	307,657
City's contributions subsequent to the measurement date	661,400	2,933,336	3,594,736	762,118	-	-	-	-
Totals	\$ 2,010,535	\$ 6,255,000	\$ 8,265,535	\$ 1,943,031	\$ 809,666	\$ 3,765,294	\$ 4,574,960	\$ 1,335,293

\$3,594,736 reported as deferred outflows of resources related to pensions resulting from City contributions and \$762,118 resulting from WMU contributions subsequent to the measurement date for the 2023 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 – PENSION PLANS (CONTINUED)

B – PENSION PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Year ended June 30	Amortization of Pension Deferred Outflows (Inflows) of Resources			
	Non-hazardous	Hazardous	Total City	WMU
2024	\$ 203,062	\$ (229,615)	\$ (26,553)	\$ (185,571)
2025	202,608	(343,595)	(140,987)	(141,068)
2026	(56,206)	(389,366)	(445,572)	(72,362)
2027	190,005	518,945	708,950	244,621
2028	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ 539,469</u>	<u>\$ (443,631)</u>	<u>\$ 95,838</u>	<u>\$ (154,380)</u>

Actuarial assumptions - The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	2.30%
Payroll growth rate	2.00%
Cost-of-living adjustment	0.00%
Salary Increases-NonHazardous	3.30% - 10.30%
Salary Increases-Hazardous	3.55% - 19.05%
Investment rate of return	6.25%

For CERS, mortality tables used for active members was the PUB-2010 General Mortality table, for the non-hazardous system, and the PUB-2010 Public Safety Mortality table for the Hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, the mortality table used is a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years, at a minimum. The most recent analysis, performed for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 18, 2019. The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized the table below. The current long-term inflation assumption is 2.3% per annum for both the non-hazardous and hazardous plan.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 – PENSION PLANS (CONTINUED)

B – PENSION PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity:	60.00%	
Public Equity	50.00%	4.45%
Private Credit	10.00%	10.15%
Fixed Income:	20.00%	
Core Bonds	10.00%	0.28%
High Yield Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected:	20.00%	
Real Estate	7.00%	3.67%
Real Return	<u>13.00%</u>	4.07%
Total	<u>100.00%</u>	
Expected Real Return		4.28%
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.58%</u>

Discount rate—For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City's net pension 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:

	<u>1% Decrease 5.25%</u>	<u>Current Discount Rate 6.25%</u>	<u>1% Increase 7.25%</u>
CERS -- NonHazardous	\$ 8,359,795	\$ 6,688,500	\$ 5,306,200
CERS -- Hazardous	29,179,139	23,424,573	18,737,834
Total Net Pension Liabilities	<u>\$ 37,538,934</u>	<u>\$ 30,113,073</u>	<u>\$ 24,044,034</u>
WMU Net Pension Liabilities	\$ 10,762,752	\$ 8,611,056	\$ 6,831,425

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 12 – PENSION PLANS (CONTINUED)

C — DEFERRED COMPENSATION (WMU)

WMU offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. WMU therefore does not show these assets and liabilities on this financial statement.

NOTE 13 – CONTINGENCIES AND COMMITMENTS

A – INDUSTRIAL DEVELOPMENT BONDS

The City has the following Industrial Building Revenue Bonds outstanding at year end:

	Origination Date	Maturity Date	Outstanding Balance
Catalent Pharma Solutions LLC	December 29, 2015	December 20, 2035	\$140,000,000

The City authorized the issuance of the above referenced Industrial Revenue Bonds for the purpose of assisting the companies in expansion of facilities. The City is not responsible for the repayment of the bonds.

B - LITIGATION

The City has legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the City and its legal counsel do not anticipate that there will be any material effects on the combined financial statements as a result of the cases presently in progress.

C – WMU

On December 3, 2021, the City of Winchester and the WMU Commission were awarded partial funding of \$5,000,000 through the Cleaner Water Program (CWP) for the Flanagan Street / Madison Avenue Sanitary Sewer Improvements. Additional funding from Round 2 of the CWP in the amount of \$748,617.00 were also received in the Fourth Quarter of 2022. The contract amount for the project is \$6,904,149.00 which does not include engineering fees or project administration costs. To date, WMU has expended \$1,170,087.16 on the project and 160 days of the 360-day contract has elapsed. The following schedule outlines the status of the milestones for the project.

- Preliminary Engineering – (Complete)
- Complete Data Acquisition Phase – (Complete)
- 30% Design Q/A – (Complete)
- 60% Design Q/A – (Complete)
- 90% Design Q/A – 07/01/2020 - (Complete)
- KEPPC Submittal – 01/02/2021 (Approved)
- 100% Design – 6/01/2021 (Complete)
- Finalize Financing – 06/01/2021 (Complete)
- Easement and Property Acquisition – (Complete)

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 13 – CONTINGENCIES AND COMMITMENTS – (CONTINUED)

- Encroachment and CSX Permits – (Complete)
- Advertise Project (Rebid) – 1/17/2023
- Open Bids (Rebid) – 2/6/2023
- Bid Award (Rebid) – 3/2/2023
- Begin Construction – 6/12/2023
- Project Substantial Completion – 12/31/2023
- Project Completion – 6/2/2024

On March 17, 2022, the City of Winchester and the WMU Commission were awarded partial funding of \$381,797.00 through the Cleaner Water Program (CWP) for the KY River Raw Water Intake Facility Standby Power & Reservoir Interconnection. On March 2, 2023, the WMUC approved and executed the Memorandum of Agreement (MOA) with the Commonwealth of Kentucky, Department of Military Affairs, Division of Emergency Management. The total award amount for Phase I of the project is \$212,136.00. The MOA allocates 5.2% (\$11,031.07) of the cost to be paid from WMU funds while 90% (\$190,922.40) is to be paid federally and 4.8% (\$10,182.53) is to be paid by the state. The engineer's estimate for the project is \$2,264,831.19.

The WMU Commission, at its regular meeting on Thursday, April 15, 2021, approved a maintenance contract with Utility Service Co., Inc. for professional services relating to the planning and implementation of a water storage tank rehabilitation and management program for the Washington Street Elevated Storage Tank. The contract began May 1, 2021 and will continue for a period of six (6) years. The first annual fee for Contract Year 1 will be \$70,000.00 and will include exterior renovations, installation of a PAX active mixing system and any necessary repairs. The annual fees for Contract Years 2 through 5 will be \$120,442.00 per contract year and will include interior renovations and any necessary repairs. The annual fee for Contract Year 6 will be \$24,627.00. The total cost over the 6-year term of the contract will be \$576,395.00.

NOTE 14 – WMU – LANDFILL POST-CLOSURE COSTS

In 1992, WMU discontinued its landfill operations and ceased accepting solid waste. Under 401 KAR 47:080, WMU presented a closure plan. The final cap, leachate collection systems, surface water drainage systems, gas vent systems and groundwater monitoring systems have been constructed. On June 4, 1998, the Clark County Fiscal Court entered into a lease agreement with WMU for the rental of county property upon which the County and WMU formerly operated landfills, the term of the lease was for 20 years at \$1 per year. The lease provides provision for the post-closure monitoring requirements of state and federal law to be provided by WMU.

The post-closure costs are allocated 30% WMU and 70% Clark County Fiscal Court. The state and federal monitoring and maintenance regulations must be performed at the site for 30 years after closure. A liability was not recorded on WMU's general ledger in the year of closure; instead, the actual post-closure expenses have been recorded in operations each year.

On October 16, 2008, WMU received notice from the Kentucky Division of Waste Management that the site had been released from groundwater monitoring. In applying GASB 18, WMU believes these costs were the most significant of the post-closure expenses. The effect of any remaining projected costs will be offset by the lease agreement with Clark County.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 14 – WMU – LANDFILL POST-CLOSURE COSTS (CONTINUED)

The Division of Waste Management has finished construction of a new wetlands treatment system for treating the landfill leachate at the WMU and Clark County Landfills. With construction of this treatment facility a new Kentucky Pollution Discharge Elimination System (KPDES) Permit was required. Laboratory testing/Monitoring required as part of the conditions of this permit were unexpectedly more stringent than the previous permit resulting in a higher monthly cost for operation.

NOTE 15 – WMU – ECONOMIC DEPENDENCY

WMU is economically dependent on the following six entities which account for 18% of water and wastewater revenues for the following years:

Name	2023
Danimer Scientific	\$ 1,340,721
The Kroger Company	1,049,812
Sekisui	377,882
East Clark County WD	339,498
Infiltrators	441,508
Catalent	158,419
	<u>\$ 3,707,840</u>

NOTE 16 – RISK MANAGEMENT

The City and its' component unit, WMU, are exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City carries commercial insurance for the risks of loss, including worker's compensation, and property and casualty loss insurance.

CITY – SELF-INSURANCE

In 2009, the City initiated a self-insured health insurance plan to provide employees with traditional healthcare insurance that covers hospitalization and major medical expenses with specific limits.

The plan is administered by a third-party administrator. The City pays the administrator a monthly fixed fee for various claim administration services, plus premiums for excess coverage insurance to cover claims that exceed \$35,000 per participant. Monthly payments also include a specified amount to set aside funds for the payment of claims that do not exceed the \$35,000 amount. The third party administrator pays these claims from the funds set aside by the City and bills the City for additional funds if the amounts in the healthcare checking accounts are not sufficient to pay claims.

Amounts held in the healthcare checking accounts are also reported as committed fund balance in the General Fund.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 16 – RISK MANAGEMENT (CONTINUED)

CITY – SELF-INSURANCE (CONTINUED)

Fiscal Year Ended June 30	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2014	\$ 109,611	\$ 1,112,190	\$ 1,108,140	\$ 113,661
2015	\$ 113,661	\$ 1,302,942	\$ 1,253,766	\$ 162,837
2016	\$ 162,837	\$ 1,849,045	\$ 1,781,190	\$ 230,692
2017	\$ 230,692	\$ 1,132,974	\$ 1,214,304	\$ 149,362
2018	\$ 149,362	\$ 1,716,969	\$ 1,618,644	\$ 247,687
2019	\$ 247,687	\$ 2,136,771	\$ 1,965,596	\$ 418,862
2020	\$ 418,862	\$ 1,586,234	\$ 1,645,427	\$ 359,669
2021	\$ 359,669	\$ 1,783,747	\$ 1,887,374	\$ 256,042
2022	\$ 256,042	\$ 1,920,674	\$ 1,896,951	\$ 279,765
2023	\$ 279,765	\$ 1,868,102	\$ 1,953,897	\$ 193,970

NOTE 17 – FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

In accordance with the guidance in GASB Statement 54, the City has classified ending fund balance based on the availability of funds for expenditure on programs and services. Restricted fund balance reflects funds that are limited to projects funded by federal, state, or local grants \$2,929,507 and shared revenues from the Commonwealth of Kentucky \$293,881 and transient room taxes \$138. Committed fund balance includes amounts set aside by the City Commission for balances held by a third-party administrator to pay future employee health care claims \$362,939, special projects \$545,589, and capital acquisitions \$2,219,396. Assigned fund balance includes amounts set aside for the special projects \$6,103.

NOTE 18 – LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUNDS

The City received \$0 in LGEA Funds during the current fiscal year. The City is in a non-coal producing county and is required to expend these funds in accordance with KRS 42.470, which limits the expenditures to public transportation, including mass transit systems, streets and roads. During fiscal year 2023, the City spent \$0 on LGEA projects.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 19 – RELATED ORGANIZATIONS

The City participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. In most cases, the city and county contribute equal funding for operations. The following table outlines these organizations and the City's contribution during fiscal year 2023.

Winchester/Clark County Planning & Zoning	\$ 17,642
Winchester/Clark County Disaster & Emergency Services	11,900
Winchester/Clark County Animal Shelter	29,565
Winchester/Clark County Board of Adjustment	3,000
Winchester/Clark County Industrial Development Authority	176,410
Winchester/Clark County Heritage Commission	18,000
Winchester/Clark County Tourism Commission	22,332
Clark County Fiscal Court - Operation Pride	3,000
Winchester/Clark County GIS Consortium	91,029
Winchester/Clark County Farmer's Market	5,000
Winchester/Clark County Unity Committee	2,500
Winchester/Clark County Parks & Recreation	52,250
Total Contributions	<u>\$432,628</u>

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS

GASB standards require the separation of healthcare benefits (OPEB) provided to retirees from the service-related pension benefits if these benefits are provided in conjunction with a defined benefit plan. As we noted in Note 1 — Summary of Significant Accounting Policies, GASB Statement No. 75 required the City and its component unit, WMU, to recognize their proportionate share of the collective net OPEB liability for the CERS cost-sharing plan, as well as the net OPEB liability associated with the single-employer Policemen's and Firemen's Pension Fund for the fiscal year ended June 30, 2023.

Amounts reported in the City's financial statements include aggregated amounts for each OPEB plan. Specific plan amounts are as follows:

<u>Describe</u>	<u>CERS</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$4,109,476	\$4,109,476	\$1,190,254
Deferred Inflows	\$4,255,124	\$4,255,124	\$1,333,117
Net OPEB Liability	\$8,362,317	\$8,362,317	\$2,350,396
OPEB Expense	\$291,158	\$291,158	\$191,539

Plan Description—Policemen's & Firemen's Pension Fund. The Health Reimbursement Account added in 2004 is paid directly by the City based on actual costs incurred by the retirees. Any liability associated with that benefit has not been recognized in the actuarial analysis of the service-related pension benefits and is funded on a pay-as-you-go approach. During the year ended June 30, 2023, the City contributed \$0 to fund these OPEB benefits. Management has determined that the OPEB liability associated with this benefit is not material and has not calculated the OPEB liability using the guidance in GASBS No. 74 or 75.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM

Plan Description—CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage.

Benefits Provided—Percentage of premium subsidies ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Contributions—CERS allocates a portion of the employer contributions to the health insurance benefit plans. CERS allocated 3.39% in FY 2023 and 4.17% in FY 2022 for the actuarially required contribution rate paid by employers for funding the nonhazardous healthcare benefit. Contributions for the hazardous OPEB plan were 6.78% in FY 2023 and 8.73% in FY 2022. In addition, 1% of the Tier 2 and 3 employee contributions are allocated to the health insurance plan for both hazardous and nonhazardous plans. OPEB contribution rates are declining as the funded status for CERS health insurance benefit plans approach 100%.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the City reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by the City as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with the City were as follows:

City's proportionate share of the net OPEB liability	
Nonhazardous plan (.092519%)	\$ 1,825,875
Hazardous plan (.767381%)	\$ 6,536,442
Total proportionate share	<u>\$ 8,362,317</u>
WMU proportionate share of the net OPEB liability (.119097%)	<u>\$ 2,350,396</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The net OPEB liability for each plan was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022.

The City's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. For the year ended June 30, 2023, the City recognized OPEB expense of \$153,408 for nonhazardous members and \$137,750 for hazardous members in CERS, WMU recognized OPEB expense of \$191,539. At June 30, 2023, City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Non-hazardous</u> Deferred Outflows of Resources	<u>Hazardous</u> Deferred Outflows of Resources	<u>Total City</u> Deferred Outflows of Resources	<u>WMU</u> Deferred Outflows of Resources	<u>Non-hazardous</u> Deferred Inflows of Resources	<u>Hazardous</u> Deferred Inflows of Resources	<u>Total City</u> Deferred Inflows of Resources	<u>WMU</u> Deferred Inflows of Resources
Differences between expected and actual experience	\$ 183,790	\$ 144,427	\$ 328,217	\$ 236,587	\$ 418,716	\$ 387,125	\$ 805,841	\$ 539,000
Changes of assumptions	288,775	1,091,122	1,379,897	371,731	237,949	1,124,687	1,362,636	306,305
Net difference between projected and actual earnings on pension plan investments	339,997	1,366,475	1,706,472	437,668	265,889	1,127,900	1,393,789	342,271
Changes in proportion and differences between City's contributions and proportionate share of contributions	134,507	-	134,507	33,859	35,067	657,791	692,858	145,541
City's contributions subsequent to the measurement date	95,818	464,565	560,383	110,409	-	-	-	-
Totals	\$ 1,042,887	\$ 3,066,589	\$ 4,109,476	\$ 1,190,254	\$ 957,621	\$ 3,297,503	\$ 4,255,124	\$ 1,333,117

\$560,383 reported as deferred outflows of resources related to OPEB resulting from City contributions and \$110,409 resulting from WMU contributions subsequent to the measurement date for the 2023 plan year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	Amortization of OPEB Deferred Outflows (Inflows) of Resources			
	Non-hazardous	Hazardous	Total City	WMU
2023	\$ 15,502	\$ (114,407)	\$ (98,905)	\$ (30,168)
2024	15,225	(114,667)	(99,442)	(39,440)
2025	(78,894)	(247,429)	(326,323)	(170,836)
2026	37,614	23,183	60,797	(12,827)
2027	-	(242,159)	(242,159)	-
Thereafter	-	-	-	-
	<u>\$ (10,553)</u>	<u>\$ (695,479)</u>	<u>\$ (706,032)</u>	<u>\$ (253,271)</u>

Actuarial assumptions

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% - 10.30%, for non-hazardous, depending on years of service
	3.55% to 19.05%, for hazardous, depending on years of service
Inflation rate	2.30%
Healthcare cost trend rates:	
Under 65	Initial trend rate starts at 6.40%, January 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Ages 65 and Older	Initial trend starting at 6.3%, January 2021, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Municipal Bond Index Rate	3.69% for both hazardous and non-hazardous
Discount Rate	5.70% non-hazardous and 5.61% hazardous

Post-retirement mortality rates (non-disabled) used a system-specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 18, 2019. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May 2021 for use with the June 30, 2021 valuation in order to reflect future economic expectations.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years, at a minimum. The most recent analysis, performed for the period covering fiscal years 2014 through 2018, is outlined in a report dated April 18, 2019.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (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 rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized the table below. The current long-term inflation assumption is 2.3% per annum for both the non-hazardous and hazardous plan.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity:	60.00%	
Public Equity	50.00%	4.45%
Private Credit	10.00%	10.15%
Fixed Income:	20.00%	
Core Bonds	10.00%	0.28%
High Yield Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected:	20.00%	
Real Estate	7.00%	3.67%
Real Return	<u>13.00%</u>	4.07%
Total	<u>100.00%</u>	
Expected Real Return		4.28%
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.58%</u>

Discount rate – The single discount rate of 5.70% for CERS nonhazardous and 5.61% for CERS hazardous was used to measure the total OPEB liability as of June 30, 2022. The Single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.69%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2022. Future contributions are projected in accordance with the current funding policy mandated in Ky Revised Statutes 61.565, as amended, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (the Kentucky General Assembly reset the amortization period to 30 years in 2020) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system.

However, the cost associated with the implicit employer subsidy for non-Medicare retirees is not currently included in the calculation of the System’s actuarial determined contributions and any cost associated with the implicit subsidy is not paid out of the System’s trust.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The implicit rate subsidy is paid by the Commonwealth of Kentucky self-insurance fund, Kentucky Employees Health Plan. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.70%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.70%) or 1-percentage-point higher (6.70%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS -- NonHazardous	\$ 2,440,904	\$ 1,825,875	\$ 1,317,451
CERS -- Hazardous	9,082,191	6,536,442	4,468,818
Total Net OPEB Liabilities	<u>\$ 11,523,095</u>	<u>\$ 8,362,317</u>	<u>\$ 5,786,269</u>
WMU Net OPEB Liabilities	\$ 3,142,104	\$2,350,396	\$1,695,916

In addition, GASBS No. 75 requires a sensitivity analysis for the healthcare trend rate for OPEB Plans using the same increase or decrease of 1% in the assumed healthcare cost trend rate. The following table presents the net OPEB liability of the City and WMU with these adjustments.

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS -- NonHazardous	\$ 1,357,498	\$ 1,825,875	\$ 2,388,308
CERS -- Hazardous	4,564,315	6,536,442	8,940,359
Total Net OPEB Liabilities	<u>\$ 5,921,813</u>	<u>\$ 8,362,317</u>	<u>\$ 11,328,667</u>
WMU Net OPEB Liabilities	\$ 1,747,467	\$2,350,396	\$3,074,399

OPEB plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of the County Employees Retirement System.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 21 – IN-LIEU OF TAX PAYMENT AGREEMENT AND LEASE AGREEMENT

The City and Catalent Pharma Solutions, LLC entered into several agreements during fiscal year 2017. These agreements are in connection with the City of Winchester, Kentucky Industrial Building Revenue Bonds Series 2015 (Bonds). The Bonds will be used for the Catalent Pharma Solutions, LLC Project expansion (Project). The City entered into an In-Lieu of Tax Payment Agreement (Agreement) and a Lease agreement (Lease) with Catalent Pharma Solutions, LLC. (Catalent). The lease agreement was amended during fiscal year 2018 to include a tract of omitted property. Catalent paid the City \$43,397 in-lieu tax payment during fiscal year 2023.

NOTE 22 - DEFICIT OPERATING/ FUND BALANCES

No funds were operating as a deficit fund balance at June 30, 2023. The following funds had operations that resulted in a current year deficit after transfers and other financing sources (see Note 5) of revenues over expenditures resulting in the following reductions of fund balances:

Municipal Aid Fund	\$ 234,038
General Fund	\$946,358
Capital Equipment Fund	\$ 1,027,927
Federal & State Grant Funds	\$1,780,912

NOTE 23– RISKS AND UNCERTAINTIES

Prior to the year ended June 30, 2023, the World Health Organization declared the coronavirus disease (COVID-19) outbreak to be a pandemic. COVID -19 continues to spread across the globe and is impacting worldwide economic activity. The continued spread of the disease represents a significant risk that operations will continue to be disrupted for the foreseeable future. The full extent to which COVID-19 impacts the City will depend on future developments which are highly uncertain and cannot be predicted.

NOTE 24 – SUBSEQUENT EVENTS

The City has evaluated all subsequent events through February 23, 2023 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2023**

SCHEDULE OF CHANGES IN NET PENSION LIABILITY:	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability:										
Total Pension Liability - beginning of period	\$ 2,253,853	\$ 2,650,554	\$ 2,483,727	\$ 2,367,898	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956	\$ 2,229,075
Interest cost	89,220	56,306	62,503	64,243	66,934	69,137	78,290	88,989	90,061	108,334
Differences between expected and actual experience	85,279	158,414	16,480	40,553	30,779	34,680	9,417	(2,392)	(117,035)	(18,476)
Changes of assumptions	156,059	(486,426)	211,113	129,788	78,273	50,570	56,183	183,853	105,860	(74,789)
Benefit payments	(133,719)	(124,995)	(123,269)	(118,755)	(118,251)	(115,818)	(115,820)	(117,851)	(116,917)	(115,188)
Total Pension Liability - end of period	<u>2,450,692</u>	<u>2,253,853</u>	<u>2,650,554</u>	<u>2,483,727</u>	<u>2,367,898</u>	<u>2,310,163</u>	<u>2,271,594</u>	<u>2,243,524</u>	<u>2,090,925</u>	<u>2,128,956</u>
Plan Fiduciary Net Position										
Plan Fiduciary Net Position - beginning of period	872,152	935,489	1,073,055	1,017,836	1,111,050	1,181,440	1,277,267	1,364,940	1,472,928	1,567,294
Contributions - Employer	75,000	100,000	-	156,566	-	45,000	25,000	20,232	15,662	14,370
Net Investment Income	7,506	(32,438)	(1,957)	36,458	31,445	8,231	136	20,234	3,936	15,822
Benefit Payments/Refunds	(133,719)	(124,995)	(123,269)	(118,755)	(118,251)	(115,818)	(115,820)	(123,083)	(119,483)	(115,188)
Other	(4,327)	(5,904)	(12,340)	(19,050)	(6,408)	(7,803)	(5,143)	(4,599)	(8,103)	(9,370)
Plan Fiduciary Net Position - end of period	<u>816,612</u>	<u>872,152</u>	<u>935,489</u>	<u>1,073,055</u>	<u>1,017,836</u>	<u>1,111,050</u>	<u>1,181,440</u>	<u>1,277,724</u>	<u>1,364,940</u>	<u>1,472,928</u>
Net Pension Liability - end of period	<u>\$ 1,634,080</u>	<u>\$ 1,381,701</u>	<u>\$ 1,715,065</u>	<u>\$ 1,410,672</u>	<u>\$ 1,350,062</u>	<u>\$ 1,199,113</u>	<u>\$ 1,090,154</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
SCHEDULE OF NET PENSION LIABILITY:										
Total pension liability	\$ 2,450,692	\$ 2,253,853	\$ 2,650,554	\$ 2,483,727	\$ 2,367,898	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	816,612	872,152	935,489	1,073,055	1,017,836	1,111,050	1,181,440	1,277,724	1,364,940	1,472,928
Net pension liability	<u>\$ 1,634,080</u>	<u>\$ 1,381,701</u>	<u>\$ 1,715,065</u>	<u>\$ 1,410,672</u>	<u>\$ 1,350,062</u>	<u>\$ 1,199,113</u>	<u>\$ 1,090,154</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	33.32%	38.70%	35.29%	43.20%	42.98%	48.09%	52.01%	56.95%	65.28%	69.19%
Note: There is no covered payroll for this plan										
SCHEDULE OF CONTRIBUTIONS										
Actuarially determined contribution	\$ 279,817	\$ 368,963	\$ 317,966	\$ 328,272	\$ 265,533	\$ 285,400	\$ 161,363	\$ 215,517	\$ 168,897	\$ 145,214
Actual employer contributions	75,000	100,000	-	147,500	-	-	25,000	15,000	10,000	5,000
Contribution deficiency (excess)	<u>\$ 204,817</u>	<u>\$ 268,963</u>	<u>\$ 317,966</u>	<u>\$ 180,772</u>	<u>\$ 265,533</u>	<u>\$ 285,400</u>	<u>\$ 136,363</u>	<u>\$ 200,517</u>	<u>\$ 158,897</u>	<u>\$ 140,214</u>
Note: There is no covered payroll for this plan										
ANNUAL MONEY-WEIGHTED RATE OF RETURN										
Annual money-weighted rate of return, net of investment expense	0.48%	-4.05%	-1.22%	3.00%	2.55%	0.35%	-0.39%	1.16%	-0.10%	0.94%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – SINGLE EMPLOYER
DEFINED PENSION TRUST
FOR THE YEAR ENDED JUNE 30, 2023**

POLICEMEN’S AND FIREMEN’S DEFINED BENEFIT PENSION PLAN:

Valuation Date	6/30/2023
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percentage of payroll
Amortization Period	Five years, open
Actuarial Asset Valuation Method	Market Value as reported by PNC Bank, Kentucky, Inc. and Community Trust Bank, with adjustments as reported by City Treasurer

Actuarial Assumptions:

Discount Rate	4.13%
Inflation	2.92%
Other	Pub-2010 Safety Dataset Amount-Weighted Mortality with generational improvements after year 2010 under projection

Changes in Assumptions from Prior Actuarial Valuation

	<u>Previous</u>	<u>Current</u>
Discount rate (for funding, GASB, and LDROM calculation purposes)	A 20-year high grade municipal bond rate (currently 4.09% per annum)	A 20-year high grade municipal bond rate (currently 4.13% per annum)

Reason: updated based on recent municipal bond information as a proxy to the City’s internal rate of return on capital.

	<u>Previous</u>	<u>Current</u>
Cost of Living Adjustments (for funding calculation purposes)	Average of the COLAs made during the most recent ten years (currently 2.00% per annum)	Average of the COLAs made during the most recent ten years (currently 2.50% per annum)

Reason: updated based on recent cost-of-living adjustment information.

	<u>Previous</u>	<u>Current</u>
Cost of Living Adjustments (for GASB calculation purposes)	Geometric average of the COLAs made during the most recent five years (currently 2.53% per annum)	Geometric average of the COLAs made during the most recent five years (currently 3.11% per annum)

Reason: updated based on recent cost-of-living adjustment information.

CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)
COUNTY EMPLOYEES RETIREMENT SYSTEM:								
NONHAZARDOUS PLAN								
City's proportion of the net pension liability	0.092523%	0.083585%	0.084304%	0.084409%	0.085848%	0.087774%	0.081600%	0.081660%
City's proportionate share of the net pension liability	\$ 6,688,500	\$ 5,329,199	\$ 6,466,047	\$ 5,936,526	\$ 5,228,405	\$ 5,135,516	\$ 3,946,977	\$ 3,510,870
City's covered-employee payroll	\$ 2,623,187	\$ 2,045,001	\$ 2,076,198	\$ 2,046,746	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	254.98%	260.60%	311.44%	290.05%	260.96%	259.51%	209.53%	193.06%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.45%	53.54%	52.80%	59.00%	59.97%
HAZARDOUS PLAN								
City's proportion of the net pension liability	0.767652%	0.801133%	0.871938%	0.869686%	0.894096%	0.893961%	0.863610%	0.909610%
City's proportionate share of the net pension liability	\$ 23,424,573	\$ 21,327,436	\$ 26,289,178	\$ 24,023,296	\$ 21,623,327	\$ 20,000,398	\$ 14,819,031	\$ 13,963,426
City's covered-employee payroll	\$ 5,115,218	\$ 4,586,358	\$ 4,878,938	\$ 4,814,069	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	457.94%	465.02%	538.83%	499.02%	401.27%	401.73%	308.47%	293.00%
Plan fiduciary net position as a percentage of the total pension liability	47.11%	52.26%	44.11%	46.63%	49.26%	48.10%	57.41%	57.52%
Proportionate share (amounts)								
Nonhazardous	\$ 6,688,500	\$ 5,329,199	\$ 6,466,047	\$ 5,936,526	\$ 5,228,405	\$ 5,135,516	\$ 3,946,977	\$ 3,510,870
Hazardous	23,424,573	21,327,436	26,289,178	24,023,296	21,623,327	20,000,398	14,819,031	13,963,426
Total proportionate share	<u>\$ 30,113,073</u>	<u>\$ 26,656,635</u>	<u>\$ 32,755,225</u>	<u>\$ 29,959,822</u>	<u>\$ 26,851,732</u>	<u>\$ 25,135,914</u>	<u>\$ 18,766,008</u>	<u>\$ 17,474,296</u>

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
Note: These amounts are based on the prior year's measurement period, not the City's fiscal year.

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED JUNE 30, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
NONHAZARDOUS PLAN								
Contractually required contribution	\$ 661,400	\$ 436,370	\$ 381,862	\$ 376,364	\$ 308,096	\$ 297,996	\$ 227,751	\$ 243,800
Contributions in relation to the contractually required contribution	<u>661,400</u>	<u>436,370</u>	<u>381,862</u>	<u>376,364</u>	<u>308,096</u>	<u>297,996</u>	<u>227,751</u>	<u>243,800</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 2,826,496	\$ 2,061,266	\$ 2,076,198	\$ 2,046,746	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523
City's contributions as a percentage of its covered-employee payroll	23.40%	21.17%	18.39%	18.39%	15.38%	15.06%	12.09%	13.41%
HAZARDOUS PLAN								
Contractually required contribution	\$ 2,933,336	\$ 1,593,556	\$ 1,532,697	\$ 1,648,038	\$ 1,105,691	\$ 1,065,385	\$ 912,949	\$ 983,018
Contributions in relation to the contractually required contribution	<u>2,933,336</u>	<u>1,593,556</u>	<u>1,532,697</u>	<u>1,648,038</u>	<u>1,105,691</u>	<u>1,065,385</u>	<u>912,949</u>	<u>983,018</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 6,851,988	\$ 4,706,308	\$ 4,878,938	\$ 4,814,069	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643
City's contributions as a percentage of its covered-employee payroll	42.81%	33.86%	31.41%	34.23%	20.52%	21.40%	19.00%	20.63%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

CITY OF WINCHESTER, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
FOR THE YEAR ENDED JUNE 30, 2023

COUNTY EMPLOYEES RETIREMENT SYSTEM:

The actuarially determined contribution rates are determined on an annual basis using the actuarial valuation conducted two years prior to the year in which the contribution will be assessed.

2020 Changes of Assumptions – The amortization period for the unfunded liability was reset as of June 30, 2019, to a closed 30-year period.

2019 Changes of Assumptions – The 2019 actuarial valuation used updated mortality tables for all categories of members and beneficiaries and a system-specific mortality table for non-disabled retirees. In 2019, mortality rates for active members were based on the PUB-2010 General Mortality table, for the nonhazardous members and the PUB-2010 Public Safety Mortality table for the hazardous members, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Post-retirement mortality rates (non-disabled) used a system-specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The PUB-2010 Disabled Mortality Table is used for post-retirement mortality for disabled retirees with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Previous valuations were based on RP-2000 Combined Mortality Tables.

2017 Changes of Assumptions – For the 2017 actuarial valuation, several key actuarial assumptions were revised. Changes in assumptions prior to 2016 provided minor adjustments to the actuarial measurements. The following table outlines the actuarial methods and assumptions that were used in 2019 and 2016 to determine contribution rates reported for all systems:

Assumption	2017 Valuation	2016 Valuation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level of Percentage of Payroll, closed	Level of Percentage of Payroll, closed
Remaining Amortization Period	26 Years	27 Years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Post-retirement benefit adjustments	0.00%	0.00%
Inflation	2.30%	3.25%
Salary Increase	3.3% to 11.55% varies by service), average, including Inflation	4% , average, including Inflation
Investment Rate of Return	6.25% , Net of Pension Plan Investment Expense, including Inflation	7.5% , Net of Pension Plan Investment Expense, including Inflation

**CITY OF WINCHESTER, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION
FOR THE YEAR ENDED JUNE 30, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM (Cont'd):

Changes of Benefit Terms -

2014: A cash balance plan was introduced for member whose participation date begins on or after January 1, 2014

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
COUNTY EMPLOYEES RETIREMENT SYSTEM:						
NONHAZARDOUS PLAN						
City's proportion of the net OPEB liability	0.092519%	0.083566%	0.084302%	0.084387%	0.085845%	0.087737%
City's proportionate share of the net OPEB liability	\$ 1,825,875	\$ 1,599,829	\$ 2,035,637	\$ 1,419,351	\$ 1,524,161	\$ 1,763,814
City's covered-employee payroll	\$ 2,623,187	\$ 2,045,001	\$ 2,209,206	\$ 2,174,972	\$ 2,003,510	\$ 1,978,917
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	69.61%	78.23%	92.14%	65.26%	76.07%	89.13%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.40%
HAZARDOUS PLAN						
City's proportion of the net OPEB liability	0.767381%	0.801228%	0.871692%	0.869514%	0.894146%	0.893961%
City's proportionate share of the net OPEB liability	\$ 6,536,442	\$ 6,478,404	\$ 8,055,354	\$ 6,433,185	\$ 6,374,898	\$ 7,390,121
City's covered-employee payroll	\$ 5,115,218	\$ 4,586,358	\$ 5,195,293	\$ 5,074,762	\$ 5,388,712	\$ 4,978,627
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	127.78%	141.25%	155.05%	126.77%	118.30%	148.44%
Plan fiduciary net position as a percentage of the total OPEB liability	64.13%	66.81%	58.84%	64.44%	64.24%	66.90%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the City's fiscal year.

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED JUNE 30, 2023**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

	2023	2022	2021	2020	2019	2018
NONHAZARDOUS PLAN						
Contractually required contribution	\$ 95,818	\$ 119,141	\$ 94,179	\$ 92,823	\$ 118,194	\$ 101,041
Contributions in relation to the contractually required contribution	95,818	119,141	94,179	92,823	118,194	101,041
Contribution deficiency (excess)	-	-	-	-	-	-
City's covered-employee payroll	\$ 2,826,496	\$ 2,061,266	\$ 2,209,206	\$ 2,174,972	\$ 2,003,510	\$ 1,978,917
City's contributions as a percentage of its covered-employee payroll	3.39%	5.78%	4.26%	4.27%	5.90%	5.11%
HAZARDOUS PLAN						
Contractually required contribution	\$ 464,565	\$ 492,751	\$ 485,405	\$ 521,934	\$ 426,461	\$ 458,837
Contributions in relation to the contractually required contribution	464,565	492,751	485,405	521,934	426,461	458,837
Contribution deficiency (excess)	-	-	-	-	-	-
City's covered-employee payroll	\$ 6,851,988	\$ 4,706,308	\$ 5,195,293	\$ 5,074,762	\$ 5,388,712	\$ 4,978,627
City's contributions as a percentage of its covered-employee payroll	6.78%	10.47%	9.34%	10.28%	7.91%	9.22%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the City's fiscal year.

CITY OF WINCHESTER, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB
FOR THE YEAR ENDED JUNE 30, 2023

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Valuation Date: June 30, 2022

2022 Changes in Actuarial Assumptions: Discount rate used to calculate the total OPEB liability increased from 5.20% to 5.70% for the CERs non-hazardous insurance plan.

2021 Changes in Actuarial Assumptions: Initial rates for health cost trends for retirees under age 65 were lowered from 6.4% to 6.25% and rates for retirees ages 65 or older were increased from 2.9% to 5.5%. Municipal bond index rate was lowered from 2.45% to 1.92% (Fidelity 20-Year Municipal GO AA Index). And the single discount rate for the CERS non-hazardous insurance plan was lowered from 5.34% to 5.20%.

2017 Changes in Actuarial Assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions which were changed from the 2016 actuarial valuation, applied to all periods included in the measurement:

Investment rate of Return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4% average
Inflation rate	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.56%
Discount Rate	5.84%

OTHER SUPPLEMENTARY INFORMATION

**CITY OF WINCHESTER, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2023**

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:										
Cash and Cash Equivalents	\$ 291,625	\$ 2,256	\$ 138	\$ 33,198	\$ 253,645	\$ 77,346	\$ 70,062	\$ 40,690	\$ 70,648	\$ 839,608
Accounts Receivable	-	-	25,969	-	-	-	-	-	-	25,969
Due from Other Funds	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 291,625	\$ 2,256	\$ 26,107	\$ 33,198	\$ 253,645	\$ 77,346	\$ 70,062	\$ 40,690	\$ 70,648	\$ 865,577
LIABILITIES:										
Accounts Payable	\$ -	\$ -	\$ 25,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,969
Due to Other Funds	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	25,969	-	-	-	-	-	-	25,969
FUND BALANCES:										
Restricted Fund Balance	291,625	2,256	138	-	-	-	-	-	-	294,019
Committed Fund Balance	-	-	-	33,198	253,645	77,346	70,062	40,690	70,648	545,589
TOTAL FUND BALANCES	291,625	2,256	138	33,198	253,645	77,346	70,062	40,690	70,648	839,608
TOTAL LIABILITIES AND FUND BALANCES	\$ 291,625	\$ 2,256	\$ 26,107	\$ 33,198	\$ 253,645	\$ 77,346	\$ 70,062	\$ 40,690	\$ 70,648	\$ 865,577

The accompanying notes are an integral part of this statement.

**CITY OF WINCHESTER, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023**

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:										
Taxes	\$ -	\$ -	\$ 210,870	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,870
Intergovernmental	383,709	-	-	-	70,622	52,999	-	-	40,150	547,480
Investment Income	14,720	100	1,077	1,469	42,332	2,480	3,111	1,803	2,941	70,033
Other	-	-	64	700	98,892	-	-	5,850	14,711	120,217
TOTAL REVENUES	<u>398,429</u>	<u>100</u>	<u>212,011</u>	<u>2,169</u>	<u>211,846</u>	<u>55,479</u>	<u>3,111</u>	<u>7,653</u>	<u>57,802</u>	<u>948,600</u>
EXPENDITURES:										
City Commission	-	-	-	-	-	-	-	-	-	-
Main Street Department	-	-	-	-	144,682	-	-	-	-	144,682
Administration	-	-	-	-	-	-	-	-	3,208	3,208
Planning	-	-	-	550	-	-	-	-	-	550
Police Department	-	-	-	-	-	8,426	-	-	35,588	44,014
Fire Department	-	-	-	-	-	-	-	-	-	-
EMS	-	-	-	-	-	-	-	-	-	-
Public Works	632,467	-	-	-	-	-	-	-	-	632,467
Intergovernmental	-	-	211,915	-	-	-	-	-	-	211,915
Capital	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>632,467</u>	<u>-</u>	<u>211,915</u>	<u>550</u>	<u>144,682</u>	<u>8,426</u>	<u>-</u>	<u>-</u>	<u>38,796</u>	<u>1,036,836</u>
Excess (Deficit) of Revenues over Expenditures	<u>(234,038)</u>	<u>100</u>	<u>96</u>	<u>1,619</u>	<u>67,164</u>	<u>47,053</u>	<u>3,111</u>	<u>7,653</u>	<u>19,006</u>	<u>(88,236)</u>
OTHER FINANCING SOURCES (USES):										
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(234,038)</u>	<u>100</u>	<u>96</u>	<u>1,619</u>	<u>67,164</u>	<u>47,053</u>	<u>3,111</u>	<u>7,653</u>	<u>19,006</u>	<u>(88,236)</u>
Fund Balance June 30, 2022	<u>525,663</u>	<u>2,156</u>	<u>42</u>	<u>31,579</u>	<u>186,481</u>	<u>30,293</u>	<u>66,951</u>	<u>33,037</u>	<u>51,642</u>	<u>927,844</u>
Fund Balance June 30, 2023	<u>\$ 291,625</u>	<u>\$ 2,256</u>	<u>\$ 138</u>	<u>\$ 33,198</u>	<u>\$ 253,645</u>	<u>\$ 77,346</u>	<u>\$ 70,062</u>	<u>\$ 40,690</u>	<u>\$ 70,648</u>	<u>\$ 839,608</u>

The accompanying notes are an integral part of this statement.

City of Winchester
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2023

<i>Federal Grantor/Program or Cluster Title</i>	<i>Award Listing Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
<i>Passed Through Kentucky Department of Local Government</i>			
<i>Department of the Treasury</i>			
CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS			
CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		\$1,881,693
Total CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS			1,881,693
<i>Total Department of the Treasury</i>			<u>1,881,693</u>
<i>Department of Housing and Urban Development</i>			
Community Development Block Grant/ State's Program	14.228	17-037	43,587
Total Community Development Block Grant/ State's Program			43,587
<i>Total Department of Housing and Urban Development</i>			<u>43,587</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$1,925,280</u></u>

The accompanying notes are an integral part of this schedule

CITY OF WINCHESTER, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2023

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Winchester under the programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of operations of the City of Winchester, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) City of Winchester did not elect to use the 10% de minimus indirect cost rate.

NOTE 3 – SUBRECIPIENTS

The City did not pass through federal awards to a subrecipient in the current fiscal year.

SUMMERS, MCCRARY & SPARKS, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

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KENTUCKY SOCIETY
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1982-2022

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 City Commissioners
City of Winchester
Winchester, KY 40391

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Winchester as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Winchester's basic financial statements, and have issued our report thereon dated February 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Winchester's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Winchester's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Winchester's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Winchester'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002.

We noted certain matters that we reported to management for the City in a separate letter dated February 23, 2024.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Summers, McCrary & Sparks, PSC

Lexington, KY
February 23, 2024

SUMMERS, MCCRARY & SPARKS, P.S.C.
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

To the City Commissioners
City of Winchester
Winchester, KY 40391

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Winchester's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Winchester's major federal programs for the year ended June 30, 2023. The City of Winchester's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Winchester complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Winchester and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Berea Independent School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Berea Independent School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Winchester's compliance based on our audit. 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, *Government Auditing Standards*, the Uniform Guidance, will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Winchester's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Winchester's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Berea Independent School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Winchester's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Summers, McCrary & Sparks, PSC

Lexington, KY
February 23, 2024

**CITY OF WINCHESTER, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

FINDINGS – FINANCIAL REPORTING

None

FINDINGS - COMPLIANCE

2023-001: Cash Disbursements

Condition: City is not in compliance with Kentucky regulations for disbursements concerning payments made within 30 days of receipt.

Criteria: Per KRS 65.140 , all invoices are to be paid within 30 days or receipt.

Cause: City is in transition with new employees responsible for the payables which were had not fully trained to know the regulations.

Recommendation: City Management should provide training for the payable clerk for the Kentucky regulations.

Response: We have established additional procedures and processes to ensure all invoices are paid timely accordingly to KRS 65.140.

2023-002: Cash Disbursements

Condition: City is not in compliance with Kentucky regulations for budget monitoring, current year expenditures exceed the adopted budget and an amended budget was not adopted. .

Criteria: Per KRS 91A.030, Legislative body may amend the budget ordinance when necessary.

Cause: City is in transition with new employees responsible for the budget monitoring and the need for an amendment.

Recommendation: City Management should monitor the budget to actual monthly and make budget amendments when necessary.

Response: This was due to an oversight. Although the budget for certain departments was overspent, the total collective budget was not. The funds were available but were not properly reflected in the budget. We will establish internal protocol to monitor each departments budget in the future and request approval of budget amendments when necessary.

**CITY OF WINCHESTER
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

FINDINGS – FINANCIAL REPORTING

None

FINDINGS - COMPLIANCE

None