

**WINCHESTER MUNICIPAL UTILITIES
WINCHESTER, KENTUCKY**

**AUDITED FINANCIAL STATEMENTS
And Required Supplementary Information**

YEARS ENDED JUNE 30, 2021 and 2020

**WINCHESTER MUNICIPAL UTILITIES
WINCHESTER, KENTUCKY
JUNE 30, 2021 and 2020**

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SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Winchester Municipal Utilities
Winchester, KY

We have audited the accompanying financial statements of the business-type activities of Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, as of June 30, 2021 and 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Contributions, Schedule of Proportionate Share of the Net OPEB liability and the Schedule of Contributions- OPEB on pages 4–25 and 58-63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Winchester Municipal Utilities', component unit of the City of Winchester, Kentucky, basic financial statements. Schedule I – Department Expenses and Schedule II – Revenue Bond Debt Services are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedule I – Department Expenses and Schedule II – Revenue Bond Debt 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, Schedule I – Department Expenses and Schedule II – Revenue Bond Debt are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021, on our consideration of Winchester Municipal Utilities', component unit of the City of Winchester, Kentucky, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Winchester Municipal Utilities', component unit of the City of Winchester, Kentucky, internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Winchester, Kentucky
October 22, 2021

**WINCHESTER MUNICIPAL UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

UTILITY PROFILE

Winchester Municipal Utilities (WMU), an enterprise fund of the City of Winchester, Kentucky (City), was established in 1958 by ordinance of the City to provide water, sanitary sewer (wastewater) and solid waste services for the City and portions of Clark County. WMU is governed by a Board of Commissioners appointed by the Mayor with approval of the Board of Commissioners of the City. The Winchester Municipal Utilities Commission (WMUC) provides direction and oversight of the Utility and its operations, adopts the budget, sets the operating policies, hires the General Manager and Counsel of the Utility, and recommends to the City utility rates necessary to support the operations of the Utility, repair and replacement of the Utility's assets and payment of the Utility's debt service.

WMU has 12,153 water customers, 11,886 wastewater customers and 8,814 solid waste customers.

Fiscal Year 2020 / 2021 budget reflects annual revenue of \$18,066,400 and annual debt service of \$5,807,666.

WATER SYSTEM

WMU's primary and current only source of water is Pool No. 10, a 25-mile pool of the Kentucky River. WMU is the only water utility withdrawing water from this source. WMU is permitted to withdraw up to 15 million gallons per day (MGD) from Pool No. 10 under normal river flow conditions, with restrictions being imposed during times of below normal river flow. The new water treatment plant went on-line and was considered substantially complete on February 24, 2021. With construction of the new WMU WTP and decommissioning of the existing WTP continued use of the Carroll Ecton Reservoir as a secondary source of raw water supply will require improvements in order to utilize and maintain the reservoir.

The new water treatment plant is rated to produce 9.0 million gallons per day (MGD). Clearwell storage is 2,225,000 gallons; elevated storage totals 3,500,000 gallons. WMU maintains approximately 181.87 miles of water line in the distribution system.

Average day water production for FY 2020 / 2021 was 4.98 MGD. Peak day water production for FY 2020 / 2021 was 6.11 MGD. In addition to the provision of service to its retail customers, WMU provides water for resale to the East Clark County Water District (ECCWD) and the Kentucky American Water Company (KAWC).

- **New Lower Howards Creek Water Treatment Plant**

Construction of the WTP at 7055 Boonesboro Road adjacent to the Lower Howards Creek Wastewater Treatment Plant was initiated on April 5, 2018. This project was designed and coordinated in conjunction with the 24-inch Raw and Finished Water Main Project (completed) as well as the Raw Water Intake improvements project (completed). The preliminary engineering work developed six (6) Technical Memorandums establishing direction for design of the new treatment facilities. Bell Engineering is serving as the Engineer of Record. WMU has plans to continue to utilize the Carroll Ecton Reservoir as a back-up/secondary water supply and construct a raw water transfer pumping station at the existing water treatment plant in accord with construction of the new water treatment plant facilities. All official approval documentation from KDOW has been received.

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A preconstruction meeting was held on January 24, 2018 and the official sale of bonds has been completed establishing the remaining financing of the project. The first progress meeting and an official groundbreaking ceremony was held on April 15, 2018. Contractor payments show approximately 95% paid out for work completed through Pay Request No. 35. On October 3, 2019, the WMU Commission approved a reduction in project retainage from 10% to 5%. As of the end of April 2021 the contractor is approximately 98% complete with construction. On February 20, 2020, the WMU Commission approved an extension of one hundred, ten (110) days to the completion date and include the addition of seven (7) general cost change items to the original contract in the amount of +\$255,679.00. The adjusted Contract Price with inclusion of Change Order #2 is \$20,331,857.00. On July 16, 2020 the WMU Commission approved Change Order No. 3 to extend the completion date by ninety (90) days resulting in a substantial completion date of August 13, 2020 and final completion date of September 12, 2020. On November 5, 2020, the WMU Commission approved Change Order No. 4 in the amount of +\$27,400.00 to provide and install three (3) electric actuators on the sedimentation basin drain line plug valves and a sixteen-week time extension for the purchase, delivery and installation of the actuators only. On December 10, 2020, the WMU Commission approved a reduction in project retainage from 5% to 2.5% until all closeout requirements are completed. On September 16, 2021 the WMU Commission approved the Change Order No. 5 (Final Adjusting) in the amount of -\$152,255.86 that included the addition/deletion of five (5) general cost change items for the original Contract and the request to reduce the project retainage from \$500,000 to \$100,000. To date, 100% of the work has been billed out for the project and only punch list items remain. The new water treatment plant went on-line and was considered substantially complete on February 24, 2021. Staff is in the process of decommissioning the old water treatment plant. Project closeout is anticipated to occur during the 4th Quarter of 2021.

- **WMU KY River Raw Water Intake Facility Standby Power**

The project consists of the design and construction of all necessary modifications to the existing WMU Raw Water Intake Facility located 1085 Ford Road, Winchester, KY for a 4160V emergency generator and transfer switch gear to provide emergency back-up electrical power to the facility. Currently the Raw Water Intake Facility located on the banks of the Kentucky River does not have an emergency backup electrical supply. The KU power supply is overhead and is exposed to both tree and ice storm damage as well as flooding. The Raw Water Intake Facility is the main and only source of raw water supply for the Water Treatment Plant approximately 2 miles away. Additionally, the project will provide a raw water line interconnection to the Carroll Ecton Reservoir in order to secure a secondary source of raw water supply for the City of Winchester and Clark County in the event the primary source of water cannot be utilized.

WASTEWATER SYSTEM

WMU maintains approximately 160.62 miles of gravity and force main sanitary sewers, ten (10) sewage-pumping stations (excluding the landfill pump stations) and two (2) wastewater treatment plants (WWTP). The Strodes Creek WWTP is rated at 7.2 MGD and the Lower Howards Creek WWTP is rated at 2.0 MGD. The Strodes Creek WWTP is designed to handle a biological load approximately four times greater than typical domestic sewage. The Lower Howards Creek WWTP is designed to handle typical domestic sewage. In addition, WMU operates solids processing facilities at both locations.

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Average day wastewater treatment for FY 2020 / 2021 at Strodes Creek was 3.90 MGD with a peak day wastewater treatment for FY 2020/ 2021 at 21.49 MGD. Average day wastewater treatment for FY 2020 / 2021 at Lower Howards Creek was 1.311 MGD with a peak day wastewater treatment for FY 2020 / 2021 at 9.56 MGD. For FY 2020 / 2021, 2,118 dry tons of Class B biosolids were produced at the Strodes Creek WWTP and 314 dry tons of Class B biosolids were produced at Lower Howards Creek WWTP.

SOLID WASTE SYSTEM

WMU is responsible for the daily collection of solid waste and recycling material (residential) generated within the City and transportation for ultimate disposal in a privately owned and permitted solid waste landfill and/or material recovery facility. In addition, WMU collects and grinds yard waste for beneficial reuse, operates and maintains a voluntary recycling operation for newspaper, white and mixed paper, cardboard, glass, plastics, tin, and aluminum, and maintains a 20-acre, non-operating landfill that is classified as *in post-closure care*.

Average day solid waste collection and disposal for FY 2020 / 2021 was 69.00 tons and average monthly yard waste collection for FY 2020 / 2021 was 135.3 tons. Average monthly recycling collection for FY 2020 / 2021 was 5.21 tons.

SIGNIFICANT ISSUES

- **Water Supply, Treatment and Distribution**

Addressing the water supply, treatment and distribution needs of the community continues to be at the forefront of priorities for the Utility. Historical growth pattern projections and water usage data indicate the need for additional potable water capacity. As would be expected the timeframe of those needs are directly impacted based upon the needs of the industrial community. While the Utility lost a significant industrial customer (Alltech) during the 2017 / 2018 timeframe a new industry, Danimer Scientific, purchased the Alltech facility and has completed the initial phase of a 2 Phase project. Phase II of the project is anticipated to go online in December of 2021. Through a similar process as Alltech, Danimer produces resins from algae that are used to make products that are fully biodegradable and can replace plastics that are made with petrochemicals. Products such as shrink-wrap, disposable spoons & forks, coffee-cups, tamper-proof seals, potato chip packaging and numerous other products people use every day. In addition, as general industry continues to look at cost saving measures for their operations normally water saving processes are at the forefront of evaluation. Determination of the water requirements for the remaining lots in the Industrial Park, Phase VI will factor into defining the ultimate water needs of the Utility.

As previously stated WMU's current permitted capacity is 9.0 million gallons per day (MGD) with current average day demand of 4.98 MGD and peak day demand of 6.11 MGD. Projections of WMU's 20-year demand as outlined in previous studies are 12.0 MGD based upon normal growth patterns which can be skewed with the addition or loss of any significant industry or other large user. Normal and peak day average water production is expected to trend upward as industry comes online and development activities continue to increase. Careful consideration has been given to all these factors when sizing the new water treatment plant (WTP) facilities and associated infrastructure.

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Discussions in 2008 between the WMU and City Commissions led to a decision to construct a new WTP. Construction was proposed to be phased with the initial capacity being 6.0 MGD to operate in concert with the existing WTP yielding an effective capacity of 8.0 – 9.0 MGD. It was determined during preliminary design that operation of a single WTP at 9.0 MGD would be the most cost effective and logical choice. The final effective capacity of the new WTP will be determined by the Division of Water (DOW). Several significant questions were answered during preliminary design which included decommissioning of the existing WTP upon completion of the new WTP facilities and continued use of the Carroll Ecton Reservoir for a back-up raw water supply. With completion of the final design of a new WTP and advertisement for bids in the Fourth Quarter of 2017, construction was initiated during the First Quarter of 2018. Judy Construction Company was awarded the construction contract in the amount of \$19,982,300.00. As of June 30, 2021, construction of the new water treatment plant facilities was 99% complete with construction being initiated on March 5, 2018.

The total estimated cost (preliminary engineering costs) of the initial phase of water system improvements ranged from \$24 - \$28 million dollars based on the best available information at the time. The revised estimate based upon as-bid and finished construction information is \$31,586,377.80. Construction of the new water treatment plant is expected to be completed during the Fourth Quarter of 2021. Preliminary grade work and siting of the new WTP facilities was constructed as part of the Lower Howards Creek Wastewater Treatment Plant project at a cost of \$2,189,500. In addition, raw water pump upgrades and raw and finished water transmission improvements were completed during calendar year 2016 which will insure the delivery of the additional capacity.

The finished water main improvements began at WMU's Kentucky River Pump Station (1001 Ford Road) extended to the future site of the proposed WTP located at 7055 Boonesboro Road, interconnected with the existing WTP facilities at 365 Water Works Road and ended with connection to the existing 12-inch water main near 550 Bypass Road. The total cost of improvements was \$8,244,329.12.

The Kentucky River Pump Station improvements included the addition of one (1) raw water vertical turbine pump, pump control valves, HVAC upgrades, electrical upgrades and other associated piping and valve improvements. Construction of the improvements was completed and accepted by the Commission in January 2017 at a cost of \$1,170,248.66.

Construction of the aforementioned water improvements and proposed improvements necessitated rate adjustments to facilitate construction. In March of 2010 it was necessary for WMU and the City of Winchester to enact phased rate increases to provide the revenue and funds to construct the capital improvements to meet the water needs of the community currently and in the future. These adjustments have equated to a total adjustment of \$15.97/month (77.1%) for city customers and \$12.89/month (47.5%) for county customers for the average 6,000 gallon/month user on the monthly utility bill for water.

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- **Consent Decree**

Compliance with requirements of the Consent Decree remains a top priority for the Utility. Much progress has been made since April of 2007 to comply with the requirements of this enforcement action. The Consent Decree is the settlement agreement between the United States Environmental Agency (EPA), the Kentucky Energy and Environment Cabinet (EEC, formerly known as the Environmental and Public Protection Cabinet), the City and WMU detailing actions to be taken by the City and WMU for violations of the Clean Water Act, 33 U.S.C. § 1319. The basic tenants of the Consent Decree call for the City and WMU to:

- Eliminate existing and recurring sanitary sewer overflows (SSOs)
- Reduce the potential for future SSOs

Deadlines outlined in the Consent Decree for completion of capital projects to eliminate SSO's are shown in the chart below:

Project	Project Area	Proposed Completion Date	Project Cost
Lower Howards Creek Sanitary Sewer Improvements	Snowfall Stoneybrook	January 31, 2013 (Complete)	\$32,765,179.90
Bel-Air Sanitary Sewer Improvements	Bel-Air Westside	July 31, 2013 (Complete)	\$559,867.96
Hampton Manor Sanitary Sewer Improvements	(Bonnie Brook and Mockingbird Valley)	July 31, 2019 (Complete)	\$1,288,128.00
Flanagan and Madison Street Sanitary Sewer Improvements	Madison, Flanagan, & East Washington Street	December 31, 2023 (Design)	\$6,200,000.00. (Estimate)
Other locations identified in Exhibit A of the Consent Decree	WMU Collection System	January 20, 2024 (Design)	Undetermined

The Lower Howards Creek Project involved a facility plan update, construction of sanitary sewer interceptors, force main and construction of a new wastewater treatment plant. The Lower Howards Creek Project is complete and received final acceptance January 2, 2014. The Bel-Air Sanitary Sewer Improvements project involved construction of an interstate road bore and new interceptor sewer that eliminated two (2) sewage pumping stations. Construction of Bel-Air is complete and was formally accepted on June 20, 2013. The Hampton Manor Sanitary Sewer Improvements project was proposed to eliminate two (2) recurring SSOs in the Bonnie Brook and Mockingbird Valley area (MH's 14-76A and 14-51). Construction of the Hampton Manor project is complete and was formally accepted on April 19, 2018. Construction of the Madison, Flanagan, and East Washington Street project includes the rehabilitation of the East Interceptor Sewer coupled with construction

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of larger diameter sewers in the downtown area of Winchester to replace aging infrastructure. This project along with all other locations identified in Exhibit A of the Consent Decree are being designed based upon flow monitoring data and updates to the Sewer Hydraulic Model as required. Completion of an SSO Elimination Study in January 2018 provided an outline of WMU's overall plan moving forward for elimination of SSOs No. 15, 16, 17, 19, 25, and 26 as delineated in WMU's Consent Decree. The purpose of the Study was to provide a global perspective for future design of projects intended to eliminate SSOs at these specific locations. WMU's approved Sanitary Sewer Overflow Plan (SSOP) calls for elimination of the above-mentioned SSO locations in the 2021 – 2025 timeframe. With completion of the Study, WMU initiated the design of the Flanagan and Madison Street Sanitary Sewer Improvements project. The project will replace several sanitary sewers located in downtown area of Winchester. The SSO Elimination Project has a Consent Decree completion deadline of December 31, 2023. The project scope includes construction of approximately 7,137 feet of 30-inch PVC, 1,549 feet of 24-inch PVC, 3,609 feet of 21-inch PVC, 4,017 feet of 15-inch PVC, 152 feet 10-inch PVC, 450 feet of 8-inch PVC gravity sewer lines and 203 feet of 8-inch PE force main. The preliminary project estimate is \$5,289,000. Staff has executed a work order with Bell Engineering to complete design of the project as well as provide resident project representation services. Staff has updated EPA Region 4 representatives related to the findings of the SSO Elimination Study and on April 11, 2019 submitted a request for extension of time for completion of the Project provided in the Consent Decree Capital Construction deadline noted above. The deadline proposed is December 31, 2023. On April 15, 2019, WMU received a request from the Department for Environmental Protection requesting additional information regarding the date extension for the completion of the remaining Sanitary Sewer Overflow Plan (SSOP) projects. Staff along with Legal Counsel prepared and submitted a response on May 13, 2019. An Agreement for Non-Material Modification to the Consent Decree has been signed by all parties and has been filed with the U.S. District Court for the Eastern District of Kentucky. Kentucky Infrastructure Authority (KIA) project profiles have been submitted to the local Area Development District for inclusion in the State Revolving Fund (SRF) process for funding of the construction. As of January 14, 2019, survey work is complete. Project plans were submitted to the KY Division of Water on September 27, 2019 for review and approval. On October 31, 2019 design and construction approval was received from the Department of Environmental Cabinet, Division of Water. On April 5, 2020 the WMU Commission approved Resolution 2020-1 & 2020-2 directing the WMU Chairman to execute the encroachment agreement with CSX Transportation, Inc. for the construction and installation of the sanitary sewers. Palmer Engineering is currently preparing easement descriptions, once complete easement documents will be prepared and staff will begin easement acquisition.

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Structured O&M programs have been developed, submitted, and reviewed/approved by the EPA. These programs are known as the Capacity, Management, Operation and Maintenance (CMOM) programs. WMU developed fourteen (14) required CMOM programs, seven (7) of which were submitted, reviewed and approved by EPA. A list of the CMOM Programs developed and submitted to EPA are as follows:

- Sewer Overflow Response Plan (SORP)
- Inter Jurisdictional Agreement Program
- Public Education Program
- Spill Impact Water Quality Monitoring Program
- Corrosion Control Program
- Routine Hydraulic Cleaning Program
- Root Control Program
- Capacity Assurance Program (CAP)
- Acquisition Consideration Program
- Infrastructure Rehabilitation Program (IRP)
- Sewer System Assessment Program (CSSAP)
- Sewer System Inventory Program
- Fats, Oils, and Grease Control Program (FOG)
- Financial and Cost Analysis Program

Additional requirements of the Consent Decree included a Supplemental Environmental Project (SEP). As a result, it was determined to be environmentally beneficial to the public to implement a SEP which would commission a study of the streams in the Lower Howards Creek Watershed (LHCW) and develop a Lower Howards Creek Watershed Management Plan (LHCWMP). The SEP Completion Report was submitted to the EPA and KDOW on November 20, 2012. On January 8, 2013 WMU received written confirmation that the SEP Completion Report in accordance with General Provision 4 of Exhibit D of the Consent Decree was approved by the EPA.

As would be expected the requirements of the Consent Decree have had a substantial fiscal effect on WMU ratepayers. In March of 2010 it was necessary for WMU and the City of Winchester to enact phased rate increases to provide the revenue and funds necessary to comply with the requirements of the Consent Decree that included capital construction projects and CMOM activities. The phased rate increases adjusted utility bills approximately 20% per year from 2010–2013. In 2014 and 2015 rates were adjusted approximately 5% annually and adjusted thereafter based upon the CPI index. With the rate increases as enacted the monthly sewer bill for the average user (6,000 gallons) has increased from \$28.88/month in 2010 to \$67.12/month in 2015. This equated to a total adjustment of \$38.24/month for the average customer or an overall increase of 132% for the average customer on the monthly utility bill for sewer service.

Since entry of the Consent Decree in April 2007, WMU has spent \$72,776,545.88 on capital projects. Expenditures amount to approximately \$6,122.88 for each of WMU's 11,886 customers. Similarly, during this same timeframe, WMU has spent \$3,405,157.94 on CMOM, flow monitoring and I/I reduction programs. Expenditures amount to approximately \$286.49 for each of WMU's 11,886 customers. The economy continues to move in a positive direction; however, growth still remains at minimal levels. This being the case, opportunities are limited to bring down the individual costs to each customer.

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- **Strodes Creek Solids Processing Improvements**

The project is part of the 2019 / 2020 Operating and Capital Budget. Project costs are currently anticipated to be \$3.473 M. Staff has identified the centrifuge technology as the preferred option that upgraded facilities will be designed around. A presentation was provided to the WMU Commission on 9-20-18 regarding such. Work Order No. 24 with Bell Engineering was executed to begin design of the project. Meetings with contractors and equipment suppliers are complete. An internal schedule has been developed in order to track the progress of the project. Additionally, Kentucky Infrastructure Authority (KIA) project profiles have been submitted to the local Area Development District for inclusion in the State Revolving Fund (SRF) process for funding of the construction. As previously reported the existing facilities have reached their useful life expectancy and wastewater flows are dictating the need for improvements. Due to the lengthy lead time of the centrifuge equipment, bids were received for the centrifuge equipment on Monday, December 3, 2018. Bell and staff have finalized review of the bids and recommended Flotweg as the supplier for the centrifuge equipment. The WMU Commission approved the bid from Flotweg at the regular meeting on 2-21-19 in the amount of \$998,000 with funds from Depreciation. Contract documents were executed during the First Quarter of 2019 to supply the necessary equipment for the upgrades to the Strodes Creek Solids Facilities. Final project plans and the construction permit application were sent to the Division of Water on June 3, 2019. On October 4th design and construction approval was received from the Department of Environmental Cabinet, Division of Water. The project was advertised in January / February 2020, a Pre-Bid Conference was held on February 13, 2020, and the bid opening was on February 20th. On March 19, 2020 the WMU Commission accepted the bid and approved award of the contract to Pace Contracting, LLC, 15415 Shelbyville Road, Louisville, KY 40245 for the unit process submitted in their bid in the amount of \$3,473,480.00. Change Order No. 1 was approved on February 4, 2021 extending the completion date by forty-five (45) days resulting in a final completion date of March 15, 2021 and for unit prices as bid and outlined in Change Order No. 1 documentation, in the amount of -\$882,204.95. Contractor payments show approximately 86% paid out for work completed through Pay Request No. 9. As of the end of June 2021 the contractor is approximately 98% complete with construction. Project closeout is anticipated to be completed during the 4th Quarter of 2021.

- **Kentucky River Lock and Dam No. 10**

Construction of the Kentucky River Lock and Dam No. 10 were completed in 1905. The lock and dam were owned and operated by the United States Army Corps of Engineers (COE) until 1996 at which time ownership and the responsibility for maintenance and replacement of the lock and dam were transferred to the Commonwealth of Kentucky. The General Assembly created by statute the Kentucky River Authority (KRA) to oversee the operation, maintenance and replacement of the 14 locks and dams on the Kentucky River. Implicit in that charge of authority is the maintenance of the 14 pools of water for water supply. The Kentucky River supplies water to approximately 22% of Kentucky's population. WMU, like all other water utilities that withdraw water from the Kentucky River, pays a withdrawal fee for each gallon of water withdrawn from the Kentucky River and the Carroll Ecton Reservoir (CER) and passes that cost to its customers. The withdrawal fees are used by KRA for repair and replacement of the 14 locks and dams. The KRA Tier II withdrawal fees were increased (July 2018) to help facilitate the repair and replacement of

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the aging infrastructure along the River. More specifically, the fees were increased to support the rehabilitation activities associated with Dam No. 10.

Dam No. 10 was built as a timber crib dam with a plain concrete face, i.e., the dam is a series of timber boxes, stacked and filled with large rock and covered with a concrete skin that has no reinforcement. The dam is well over 100 years old and has received no substantial rehabilitation during its service life. The dam impounds Pool No. 10 which creates the water supply for Winchester and most of Clark County.

Pool No. 10 is the longest pool on the Kentucky River stretching nearly 25 miles along the 260 miles of the Kentucky River. The East Kentucky Power (EKP) Dale Generating Plant did withdraw cooling water for the power generating plant from this pool. EKP has since decommissioned the facility located at this location and has finalized removal of coal ash from the sedimentation ponds. With this decommissioning the WMU withdrawal is the only permitted withdrawal from Pool No. 10. Upstream from WMU's water intake in Pool No. 10 is one of the City of Richmond Utilities Wastewater Treatment Plants (WWTP) permitted discharges, Otter Creek in Madison County. The permitted WWTP discharge meets the Kentucky, five-mile separation rule between a WWTP discharge and a WTP intake.

The Kentucky River is subject to wide variations in flow from 0 flow to 1 billion gallons per day. The wide variations in flow and resulting stress on the dam and scour below the dam make Dam No. 10 vulnerable to overturning. As such, KRA has designed improvements and is currently in the construction phase to make the necessary improvements. Construction is expected to last approximately 3-4 years depending upon weather conditions and flows in the river. The engineer of record for the project is Stantec (Lexington) with C.J. Mahan Construction Company (Ohio) providing construction services.

As previously mentioned Tier II withdrawal fees were increased in July 2018 in order to finance the proposed improvements. The Kentucky Department of Finance approved the KRA Board's recommendation to adjust the rate structure for Tier II user fees from \$0.13 to \$0.22 per thousand gallons withdrawn. Construction of the improvements is an approximate \$24.5M investment for the citizens of Winchester/Clark County. Inaction on the part of KRA would potentially result in a failed dam leaving Winchester without its primary water supply. KRA has indicated their emergency action plan to repair a failed dam would place the burden on the water withdrawer for a minimum of 7-14 days until equipment could be mobilized. WMU's Carroll Ecton Reservoir would yield, without mandatory conservation measures, approximately a 30-45 day supply of water under normal weather patterns. However, with startup of the new water treatment plant the CER is not currently capable of being utilized as a secondary source of water supply. A raw water line interconnection on the old WTP site is needed in order to continue to utilize it as a secondary source of raw water supply in the event the primary source of water cannot be utilized.

The KRA voted to adjust Tier I water user fees from \$.022 to \$.029 per thousand gallons withdrawn in February 2020. The adjustment raised the total KRA water withdrawal fee from \$.30 to \$.32 per hundred cubic feet of water billed.

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The Kentucky River is a non-protected watershed. It is subject to contamination from straight pipes (unauthorized sewer discharges), agricultural runoff (chemical contamination), chemical spills, and drought. Yet approximately one quarter of the state's population relies upon the river for water supply. Tier I water fees (2.9 cents per 1,000 gallons) are based on water withdrawn from any source within the boundaries of the Kentucky River Drainage Basin, and are used to fund the day-to-day operations of the KRA. Tier II water fees (22 cents per 1,000 gallons) are based on water withdrawn from the "Main Stem" of the Kentucky River, and are reserved for the maintenance and replacement of the locks and dams on the Kentucky River.

- **Carroll Ecton Reservoir**

The Carroll Ecton Reservoir (CER) impounds approximately 500,000,000 gallons of water on an unnamed tributary of Lower Howards Creek. WMU is permitted to withdraw up to 5.3 MGD from the Reservoir. With startup of the new water treatment plant the CER is not currently capable of being utilized as a secondary source of water supply. However, excess raw water flow from the Kentucky River can be pumped to the CER during normal operation. Over the years significant leakage has developed out of the hillside (rock face) just below the dam and an unknown amount of silt has accumulated within the body of water both of which effect storage volumes. The WMU Commission has determined that the CER should remain a secondary raw water source and has authorized design and construction of improvements in conjunction with the new WTP facilities provided that funds are available to do so. This will ensure a reliable secondary raw water source for the community in the event problems are experienced along the Kentucky River.

- **Solid Waste Enhancements**

The WMU Commission authorized a comprehensive solid waste study of the solid waste operations for WMU on May 31, 2012. The scope of services was comprised of four (4) phases of work that included 1) Compilation and review of existing information, 2) Cost and rate analysis, 3) Review of alternatives (optional), and 4) Reporting. The final report delivered in March of 2013 provided a comprehensive review of the operational and financial performance of WMU's solid waste services, including collection, recycling, and operation of the transfer station. The final report also included state and national benchmarking of municipal and solid waste management systems to gauge the "state of the industry" and to identify best practices for consideration by WMU. Key findings from the study included elimination of the mandatory commercial customer charge, establishment of a multi-family customer class, validation and implementation of several operational alternatives including integration of elderly/disabled collection into regular refuse routes; conversion of the second weekly refuse collection service to curbside recycling collection; consideration of a Pay As You Throw (PAYT) structure; and establishment of commercial collection for corrugated cardboard recycling. The final report developed rate structures for "full cost" and "revenue sufficiency".

Since completion of the final report WMU has implemented several of the recommendations and findings or variations thereof that include Residential Single Stream Curbside Recycling, Phases I (March 7, 2014) and II (October 2, 2014) and established a multi-family customer class with container rates.

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The WMU Commission authorized an additional solid waste study of the solid waste operations in December of 2015 to evaluate 1) Conversion to weight-based tipping fees, 2) Commercial sector recycling, and 3) Commercial haulers use of the WMU Transfer Station. A final report was delivered in May of 2016 which provided recommendations to convert to a weight-based tip fee versus volumetric tipping fees for refuse disposal. The report also acknowledged that WMU should seek feedback from the commercial sector customers prior to making any decisions related to commercial curbside customer recycling and WMU should investigate the opportunities to expand the throughput of the WMU Transfer Station to help offset the cost per ton for refuse disposal.

Installation of Transfer Station truck scales in September 2015 via Kentucky Pride Grant Funds provided the opportunity for conversion to weight-based tipping fees. Consequently, revisions to Sections 14-81-7 and 14-81-8 of the Winchester Code of Ordinances No. 8-2016 received final approval by the Winchester City Commission in August of 2016. The revisions included conversions to weight-based tipping fees and clarification on WMU Transfer Station disposal fees. WMU continues to review recommendations from the 2013 and 2016 reports that can be implemented and enhance the overall operation of the Solid Waste Department.

A recent decline in recycling commodity pricing and increased processing costs at the Materials Recovery Facility (MRF) have required staff to review options related to the single stream curbside recycling services currently provided. The amount of materials that is delivered to the Lexington Recycling Center (LRC) and deemed non-recyclable contamination — or percentage of materials put into recycling bins that cannot be recycled and must go to the landfill — is estimated to be between 22 and 27 percent. Once the recyclables are taken to the LRC, they sort the materials and sell the desirable commodities and the remainder of the materials that cannot be recycled are then landfilled. The landfill costs to process those non-recyclable materials have outweighed the revenues we received for the recycled materials that are sold. Recent statements from LRC Officials indicate the value for recyclable commodities are predicted to continue to diminish over the next few months. On average it is estimated the percentage of paper products that are collected and will now be landfilled is between 35 and 40 percent in addition to the materials that are already being landfilled. In consideration of those factors and as a result of the LRC decision to not accept any paper products, the decision was made that WMU would suspend its curbside recycling program.

As mentioned in previous sections in March of 2010 it was necessary for WMU and the City of Winchester to enact phased rate increases to provide the revenue and funds to meet the solid waste needs of the community currently and in the future. These adjustments have equated to a total adjustment of \$16.72/month for customers on their monthly utility bill for solid waste.

- **Affordability**

Affordability of services is a major concern for the City Commission, the Utility Commission and to Management. The WMU service area population is approximately 27,000 – 30,000 of which 51% fall in the low to moderate income (LMI) level. While the economy continues to show signs of improvement and recovery, limited local development further impacts the affordability of WMU's services.

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The primary costs in WMU's budget are capital costs including renewals and replacements. The cost of compliance with the Consent Decree and elimination of I/I (approximately \$75.6 (million to-date), cost for upgrading and expanding WMU's water system capacity and additional capital needs are expected to exceed \$17 million. Renewals and replacements exceed \$2,000,000 each year. The driving factors in WMU's operations and maintenance budget are power, fuel, chemical and personnel costs.

The City and WMU Commissions, in concert with Management, have continuously worked to reduce the financial burden of rate increases. Cost-effective decisions must be considered and made with respect to capital needs. Management is focused on cost-effective operations while taking into consideration the high level of service demanded by WMU's customers. One of the cost-effective measures included in the budgeting process for the five-year capital plan included setting aside monies in the Depreciation budget to fund new water system improvements.

The City and WMU Commissions passed rate increases that became effective in February 2010. Rates have been adjusted annually with the last increase implemented in January 2015. These rate increases were necessary despite a depressed economy, high unemployment, and a declining stock market. Implementation of the rate increases allow WMU to upgrade and improve WMU's water system, comply with the Consent Decree, and contribute to replacement of WMU's aging water and wastewater infrastructure. This ensures a high level of service to existing customers and positions the community to be able to attract and retain residential, commercial and industrial development while balancing the affordability of providing a prescribed level of service.

Previously, the City and WMU Commissions passed an annual adjustment to the rate structure tied to the Consumer Price Index (CPI). This adjustment allows WMU to maintain its operating and maintenance budget current with the cost of living through annual adjustments to the rate versus the historical flat line approach with infrequent but significant adjustments. This approach was favored in a community survey by 73.5 % of the respondents. CPI rate adjustments were enacted during the First Quarter of 2018, First Quarter of 2019, First Quarter of 2020 and First Quarter of 2021. The 2021 CPI rate adjustment approved by the WMU Commission was based upon December 2020 information which reflected a 1.4% increase.

The City and WMU Commissions, in concert with the Fiscal Court, have adopted legislation (Privilege Fee) that will ensure that the costs of growth for WMU's sanitary sewer system are apportioned to all benefitted properties versus being solely supported by the existing customer base. The privilege fee approach is favored for its equity and for the benefit to the community by insuring that sanitary sewers are sized on a watershed basis versus the historical "first in, one size fits all approach". The Privilege Fee Ordinance and Policies have been approved by the respective legislative bodies and WMU's first Privilege Fee Agreement (PFA), located in the Strodes Creek, Basin B received final approval on September 21, 2014. Recent efforts by entities in the Hancock Creek watershed to move a second PFA project forward have stalled due to the potential costs of those involved. A project in this watershed would involve multiple PFA's.

The City and WMU Commissions have secured grants and sought the best possible financing for WMU's capital needs. The City and WMU received a \$36,600,000 low interest (2.2%; 20 years) loan for the Lower Howards Creek Wastewater System

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Improvements. The City and WMU received a \$750,000 Community Development Block Grant and \$750,000 Economic Development Grant to construct the Forest Park Sanitary Sewer Improvements project. Management applied for but did not receive grant funds to construct the Bel-Air Sanitary Sewer Improvements project. Funding for the Bel-Air project was secured via a low interest loan from the Kentucky Infrastructure Authority (2.2%; 20 years). Financing of the Hampton Manor Sewer Improvements was via low interest funds from the Kentucky Infrastructure Authority. Financing of the Water System Improvements is a combination of accumulated funds that include Depreciation funds as previously mentioned, System Development Charge funds and the sale of revenue bonds in the range of 4-5% for 20 years. Expectations for funding of the Flanagan and Madison Street Sanitary Sewer Improvements will be a combination of accumulated funds as well as low interest KIA funds.

BUSINESS FACTORS

- **Facilities Planning**

WMU is required by federal and state regulation to maintain a Facilities Plan that outlines the long-term plan for growth of the sanitary sewer system and treatment works. A Facilities Plan Update was completed and approved by the Energy and Environmental Cabinet (EEC) for the upgrade of the Strodes Creek Wastewater Treatment Plant. The last Facilities Plan with respect to the collection system was completed in August 2008. The plan should be updated on a minimum 20-year cycle. The WMU Commission authorized Palmer Engineering Company (PEC) to evaluate the collection system and treatment alternatives for the Strodes Creek, Lower Howards Creek, Hoods Creek, Hancock Creek and Four Mile Creek watersheds and sub-watersheds. The Facilities Plan Update is a required element of the Consent Decree.

Conversely, there is no such mandate for the drinking water system with respect to planning. However, in November 2009 Hazen & Sawyer prepared a Water System Planning Study outlining recommendations for significant improvements needed to meet current and future needs for the Utility. Recommendations included conceptual cost estimates for a new WTP, raw water pump station upgrades, raw water transmission main upgrades, finished water transmission upgrades and reservoir improvements. The conceptual cost summary totaled \$58,700,000 of improvements excluding any reservoir improvements.

Since that time, WMU retained Bell Engineering (September 2013) to provide a third-party review of existing studies and alternatives relative to the water supply, treatment and transmission main infrastructure. Technical Memorandum No. 1 (TM 1) was completed and presented to the WMU Commission on March 6, 2014. TM 1 included evaluation and recommendations for raw water supply, raw water intake and pump station improvements, raw and finished water transmission main improvements, and an updated opinion of probable construction cost and schedule for the proposed new WTP. The conceptual cost summary from TM 1 which included improvements to maintain the Carroll Ecton Reservoir as a back-up water supply totaled \$42,370,000. The conceptual cost estimate was further developed and as previously mentioned the initial phase of improvements ranged from \$24 - \$28 million dollars based on the best available information. Current information provides for nearly \$32,000,000 to be expended on the water system improvements.

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In response to initiatives identified in the Clark County Community (CCC) Action Plan, the Winchester Recycling Task Force (RTF) was established in 2009. In the same year, the RTF developed and coordinated a county-wide Recycling Survey mailed to approximately 12,000 customers of WMU, Rumpke, and S&G Sanitation within the December 2009 and January 2010 billing cycle. A total of 2,167 survey responses were received representing a response rate of 22 percent. Of the 2,167 respondents, 1,447 (67%) were WMU customers. Based on the survey results and research efforts of the RTF, the Winchester City Commission and WMU Commission implemented a Pilot Program for the Holiday Hills subdivision the week of August 1, 2011. Based upon positive results of the Pilot Program and recommendations from the Solid Waste Study it was proposed to implement Residential Single Stream Curbside Recycling for WMU customers in two phases. Phase I was implemented March 7, 2014 and Phase II October 2, 2014. Preliminary analysis of the recycling rates indicates that participation and volume are less than 15% of the total volume of material collected. This is below industry thresholds which indicate that 20-25% is an acceptable range for volume and participation. WMU continues to review recommendations as outlined in the various studies conducted for the solid waste activities.

On Tuesday, May 14, 2019, WMU Staff was notified by the Lexington Recycle Center that effective immediately they have temporarily suspended recycling of paper products which includes office paper, envelopes, phone books, calendars, folders, fliers, shredded paper, newspaper, magazines, cereal boxes, paper towel rolls and similar products. The WMU Transfer Station does not have a means of sorting the commingled mixture of recyclables into separate commodities (newspaper, paperboard, corrugated fiberboard, plastic, glass, metal, etc.). Therefore, due to this recent change in policy by the Lexington Recycle Center to landfill any unclaimed paper and to avoid the increased processing fees associated with these materials, WMU curbside recycling was suspended until further notice.

- **Rate Studies**

The WMU Commission previously authorized rate studies of WMU's three utility functions. The rate studies proposed revenue sufficient rates to support WMU's operations, including the expanded operations as required by CMOM, the operations of the Strodes Creek WWTP and the planned WTP, the capital needs as required by the Consent Decree and the planned water system improvements. Results of the rate study are reflective of the rates recommended, approved, and implemented February 2010. Staff maintains an in-house Financial Model and updates as necessary to ensure the financial stability of the Utility.

The WMU Commission authorized a wholesale cost of service study to support WMU's wholesale cost of service rate to its only wholesale customer, East Clark County Water District. The rate study has been completed and received Public Service Commission (PSC) approval on October 5, 2010 to increase the cost from \$1.62 to \$1.72 per hundred cubic feet of water sold. With completion of the large Water System Improvements projects the wholesale rate will be reviewed to determine the need for adjustment of this rate.

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As part of the Solid Waste Study initiated in May 2012 a cost and rate analysis was conducted of WMU's current rates as well as expanded service rates. As previously mentioned a multi-family customer class was established with corresponding container rates as a result of the study. Implementation of any other recommendations will most likely result in impacts to future budgets.

Due to the significant amount of debt incurred for capital construction projects since the last rate study it would be beneficial for the Utility to review the rate structures for all three utility functions in the near future. Based upon the current capital construction schedule the optimal time would be upon completion of the new WTP and Hampton Manor Sanitary Sewer Improvements project. This would allow the rate study to precede construction costs associated with large sanitary sewer improvements required by the Consent Decree which are proposed for the 2021 and 2024 timeframe. In addition, the study would provide for an independent review of the rates in a 10 – 12-year timeframe.

- **Work Force**

Key issues that continue to face WMU with respect to workforce include retirements, loss of institutional and industry knowledge, finding and attracting qualified replacement employees, paying competitive wages based on industry standards, and training of employees to meet the increasingly sophisticated needs of water, wastewater, and solid waste utility operations including customer service, finance, information systems, administrative services and engineering.

WMU has 84 budgeted staff positions of which 72 are filled and 6 part-time employees. The average age for WMU employees is 40 years. The number of eligible retirements at WMU over the next five years, due to age, years of service, or both, is nine (9) or 12% of the workforce. Since 2002, there have been 50 retirements which equates to a loss of nearly 70% of the WMU workforce. Large scale retirement numbers often enable entities to renew and refresh operations, systems, and business philosophies. Transition planning has been successful for most key positions; however, such changeover carries the burden of losing institutional and industry knowledge, and challenges Management to find, attract, train, and retain replacements particularly for supervisory positions. As WMU moves forward with construction of additional facilities for both water and wastewater, staffing of those facilities will be of utmost importance. In an effort to screen and find quality employees WMU has acquired the help of a local temporary staffing service agency.

WMU's attractiveness as an employer continues to be its benefits package. With the recent changes in the retirement system the benefit package will become less attractive and other avenues will need to be explored to attract quality employees. That being the case, the Commission has recognized the need to make positive adjustments in WMU's pay scale which has helped with retention of quality employees. These efforts have helped WMU provide salaries that are at least average or comparable to other municipalities. Training for utility operations is typically on-the-job. Certification in operations and driver's licensing (commercial) is a job requirement for all three utility functions. Support functions, customer service and vehicle maintenance, as well as engineering and finance, will require on-the-job training specific to WMU's business operations. Workforce development is critical in maintaining the quality of service delivered by WMU and for compliance with enforcement and regulatory activities. Management continues to look for opportunities to improve salaries for competent and

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skilled employees and recruitment from the local high school and technical college facilities.

- **Infrastructure Renewal**

A structured approach for infrastructure renewal spreads costs over the long-term and can increase the service life of assets. WMU continues to emphasize the importance and need for ample asset management and infrastructure renewal allocations. WMU's infrastructure renewal program includes a prioritization methodology to maximize capital investment, and annual allocations for defined asset categories. WMU annually allocates an average of \$2,000,000 of its capital investment for this effort. Program elements include:

- Main Replacement Program – Water
- Fire hydrant Replacement
- Gate Valve Box Adjustment – Pavement Overlay
- Elevated Storage Tank Rehabilitation
- Meter Change Out
- Main Replacement Program – Sewer
- Private Sewer Replacement
- Inflow and Inflow (I/I) Rehabilitation
- Curbit Replacement
- Container Replacement
- Vehicles
- Plant & Equipment Improvements

While WMU's program of infrastructure renewal is a model for other utilities and public works agencies in the central Kentucky area, the program is limited in its scope by funding, especially with large water system improvements and Consent Decree requirements planned for the immediate future. Infrastructure renewal funding should be based upon a mathematical model that addresses asset category inventory and asset category service life. WMU's program is based upon funds available. As an example, and simply stated, for the waterline asset category, funding for waterline replacement should be based upon the cost for replacing the number of miles of waterline divided by the service life of the pipe. In this example, if WMU owns and maintains 182 miles of waterline with the waterlines having a service life of 60 years, the allocation for waterline replacement should be the average cost of replacing 3 miles of waterline per year. At \$60 per foot for replacement of a waterline this calculates to an annual allocation of \$950,400. Likewise, if WMU owns and maintains 160 miles of sanitary sewer lines having a service life of 60 years, the allocation for sewer line replacement should be the average cost of replacing 2.61 miles of sewer line per year. At \$70 per foot for replacement of a sewer line, the annual allocation calculates to be \$964,656. Without adequate funding for infrastructure renewal WMU is susceptible to interruption of service to its customers and a reduced level of service provided to its customers.

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- **Regulations**

WMU and its utility functions are highly regulated. Regulation is a necessary part of the utility business to ensure a service delivery level and to protect the public's safety, health, and welfare. Regulations serve to protect the environment for future generations. Regulations ensure conservation and protection of our natural resources.

Regulations are regularly considered and promulgated by state and federal governments. WMU staff is active in monitoring proposed regulations and the impacts such regulations have on a local basis. Comment and impact on the promulgation of regulations on a federal level is limited, however, WMU staff communicate with state and national industry organizations and through direct contact with federal officials elected from Kentucky. On a state level, WMU staff participates on numerous committees and task forces to provide a voice for city-owned water, wastewater, and solid waste utilities.

State regulations typically result as mandates on state regulatory agencies from federal legislation. Kentucky is a primacy state meaning that the State is responsible for implementing and enforcing federal regulation. Staff works to ensure that state regulations, when promulgated, are reasonable and practicable.

The most recent two (2) regulations that were enacted at the State level having a financial impact on WMU were the Kentucky wastewater laboratory certification program for wastewater treatment plants (401KAR 5:320) which required fees in the amount of \$1,900 and implementation of additional quality control standards and the other being HB 1 which requires a special purpose governmental entity (SPGE) to register, pay fees in the amount of \$500, and submit financial disclosure statements each fiscal year to the Kentucky State Auditor. WMU has complied with each of the above-mentioned regulations and continues to monitor other regulations as they are promulgated. WMU's current and future large-scale construction projects have been designed considering proposed and future regulations.

- **Vulnerability**

The impacts of 9/11 and the resulting passage of the Bioterrorism Act in 2002 required utilities to consider their vulnerabilities as a primary consideration versus a secondary consideration. For mid-size and smaller utilities such as WMU the probability of an act of international violence or terrorism is extremely low.

However, WMU's vulnerabilities are real and must be considered. Planning must be in place to address catastrophic events, violence, or contamination. Potential threats to WMU include severe weather (tornado, lightning, ice or snow), earthquake, prolonged power outage, contamination of the raw or potable water supply, workplace or customer violence, hazardous chemical spills, contamination or contact, and regular job safety hazards including confined space, vehicular accidents, and personal injury accidents. Management continues to explore opportunities to reduce vulnerabilities of the Utility through upgrades to its systems, allocating budget dollars to make its facilities as safe and secure as possible, securing grant funds to install redundancy in critical equipment and provision of employee safety training on an annual basis. Security upgrades at the WMU Administration building

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and WTP were completed in FY 2013/2014. Upgrades included customer service area security enhancements for the Administration building as well as keyless entry access for both locations. WMU participates in the Local Disaster Emergency Services (DES) group on a monthly basis. This provides an opportunity for communication of all-important stakeholders in the community to voice concerns and offer input for improvements as it relates to responding to various emergencies.

- **Growth**

It has been the policy of the WMU Commission to be neither pro nor con with respect to growth. Rather the Commission has placed as a part of its mission to accommodate growth as approved by the Planning Commission, the City Commission and the Fiscal Court with specified required levels of service. WMU and the City continue to examine and develop policies such as the Privilege Fee Ordinance that provide for growth and that protect the existing customer base from the costs of serving growth. Growth continues to show signs of improvement excepting the loss of the recent large industry as mentioned above.

The Consent Decree requirements impact future extensions to the sanitary sewer system, as a detailed, engineering-capacity analysis per the Capacity Assurance Program (CAP) is required for each extension. The capacity analysis thus has become a defacto growth management tool.

WMU avails itself of every opportunity during the development process to add to and to strengthen the water transmission system and backbone sanitary sewer system taking into consideration long range growth needs.

UTILITY HIGHLIGHTS

- **Renewals and Replacements**

WMU began its program of infrastructure renewals in 1996 with emphasis on improving service delivery and ensuring that all customers are afforded a comparable level of service delivery. Historically, WMU never attempted these types of improvements without incurring new debt. The infrastructure renewal program has been implemented and managed without additional funding allocations or rate increases. Funding for the program was achieved through management of WMU's depreciation funds. To date, this program has resulted in the following replacement totals:

•Water Line Replacements	119,582 (22.65 miles)
•Sanitary Sewer Replacements	112,499 (21.31 miles)
•Fire Hydrant Replacements	150
•Gate Valve Replacements	384
•Manhole Replacements	462
•Elevated Storage Tank Rehabilitations	5

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The following infrastructure improvements were completed during the 2020 / 2021 fiscal year.

- Quisenberry Lane Water System Improvements – 648' of water line, 1 fire hydrant and 3 isolation valves.
- GRCHS Competition Gym & Athletic Complex – 1,360' of water line, 3 fire hydrants, 3 isolation valves, 2,285' of sewer line and 14 manholes.
- GRCHS Field House & Athletic Fields Project – 290' of water line, 1 fire hydrant, 3 isolation valves, 695' of sewer line and 4 manholes.
- Scobee Chapel Sanitary Sewer System Improvements – 240' of sewer line and 2 manholes.

Summary FY 2020 / 2021

*Water Line = 2,298 feet

*Sewer Line = 3,220 feet

*Fire Hydrants = 5

*Manholes = 20

*Isolation Valves = 9

UTILITY HIGHLIGHTS: FINANCIAL

Total Assets decreased from \$150,114,528 June 30, 2020, to \$148,045,451 June 30, 2021, a net decrease of \$2,069,077 or 1.38%. In the past few years, Winchester Municipal Utilities has completed the Strodes Creek and Lower Howards Creek wastewater treatment plants which were a part of many Consent Decree projects that have been placed into PP&E. The two plants have depreciated over \$1,950,689 in this fiscal year. During the year as the construction of the water treatment plant progressed, the cash reserves decreased to process the monthly construction expenses. In addition, donated capital of ownership and perpetual maintenance of system water and sewer lines and related appurtenances by developers was placed into PP&E.

Operating Revenues increased from \$17,675,933 June 30, 2020, to \$18,018,690 June 30, 2021, a net increase of \$342,757 or 1.94%. A rate increase based upon the CPI change in December of 2019 of 2.3% and 1.4% in 2020 was implemented resulting in an increase in operating revenues. In addition, a large industrial user started production in the Fall of 2019 and continues to increase flows resulting in an increase in revenues.

Operating Expenses increased from \$15,925,126, June 30, 2020, to \$16,199,997, June 30, 2021, a net increase of \$274,871 or 1.73%. A contributing factor to the increase is due to salaries and related benefit costs. Pension costs have also increased due to GASB 68 and GASB 75 that requires reporting of pension liability and contribution costs have increased to 24.06% for 2020/2021. Winchester Municipal Utilities is a member of the CERS retirement system which is a part of the retirement system of the State of KY.

Net Income before Contributions changed from \$597,228 June 30, 2020, to \$306,994 June 30, 2021, a net decrease of \$290,234 or 48.60%. The increase in industrial revenue is offset by a change in Pension costs related to the reporting requirements for GASB 68 and 75 resulting in the decrease from prior year.

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- **Statement of Net Assets**

Condensed Statement of Net Assets – Assets

	2021	2020	Difference	Percent
Current Assets	\$12,566,847	\$12,284,678	\$282,169	2.30
Non-Current Assets	\$ 5,531,765	\$ 9,988,578	\$(4,456,813)	44.62
Property, Plant & Equip	\$129,946,839	\$127,841,272	\$2,105,567	1.65
Total Assets	\$148,045,451	\$150,114,528	\$(2,069,077)	1.38

Condensed Statement of Net Position – Liabilities and Net Position

	2021	2020	Difference	Percent
Current Liabilities	\$4,432,046	\$5,500,460	\$(1,068,414)	19.42
Noncurrent Liabilities including LTD	\$74,808,362	\$76,715,710	\$(1,907,348)	2.49
Total Liabilities	\$79,240,408	\$82,216,170	\$(2,975,762)	3.62
Net Position:				
Net Investment of Capital Assets	\$64,833,906	\$59,023,561	\$5,810,345	9.84
Restricted Net Assets	\$6,112,290	\$10,584,772	\$(4,472,482)	42.25
Unrestricted Net Assets	\$183,581	\$ 227,513	\$(43,932)	19.31
Total Net Position	\$71,129,777	\$69,835,846	\$1,293,931	1.85

- **Statement of Revenues, Expenses and Changes in Net Assets**

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2021	2020	Difference	Percent
Operating Revenues				
Water	\$5,530,010	\$5,499,890	\$30,120	0.55
Wastewater	\$8,597,084	\$8,391,292	\$205,792	2.45
Solid waste	\$3,891,596	\$3,784,751	\$106,845	2.82
Total Operating Revenues	\$18,018,690	\$17,675,933	\$342,757	1.94
Operating Expenses including Depreciation	\$16,199,997	\$15,925,126	\$274,871	1.73
Operating Income	\$1,818,693	\$1,750,807	\$67,886	3.88
Non-Operating Income	\$131,131	\$381,448	\$(250,317)	65.62
Interest Expense	\$(1,642,830)	\$(1,535,027)	\$(107,803)	7.02
Net Income (Loss) before Contributions	\$306,994	\$597,228	\$(290,234)	48.60
Capital Grants and Contributions	\$986,937	\$762,523	\$224,414	29.43
Changes in Net Position	\$1,293,931	\$1,359,751	\$(65,820)	4.84
Net Position, Beginning of Year	\$69,835,846	\$68,476,095	\$1,359,751	1.99
Net Assets, End of Year	\$71,129,777	\$69,835,846	\$1,293,931	1.85

**WINCHESTER MUNICIPAL UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

- **Five-Year Capital Plan**

The WMU Commission maintains and annually updates a five-year capital plan that identifies and prioritizes the capital requirements of WMU necessary for customer service, regulatory compliance, and to accommodate growth. The five-year investment totals in excess of \$7,952,500 that will be invested in infrastructure renewal and administrative support. Additionally, \$275,000 is reserved for emergency and / or unexpected expenditures.

- **Debt Administration**

As of July 1, 2021, WMU maintained the following debt:

• Series 2012 Bonds	\$ 4,595,000
• Series 2014 Bonds	\$ 8,615,000
• Series 2018 Bonds	\$ 12,915,000
• Series 2020 Bonds	\$ 5,557,703
• KIA Strodes Creek	\$ 8,371,491
• KIA Vaught	\$ 143,533
• KIA Tank	\$ 178,544
• KIA LHC	\$ 23,679,532
• KIA BelAir	\$ 347,580
• KIA Hampton	\$ 1,088,313

The Debt Service coverage factor for Bonds of 3.97% in FY 2020/2021 is favorable to the required 1.2 coverage limit. The Debt Service coverage factor for KIA debt of 1.42 in FY 2020/2021 is favorable to the required 1.0 coverage limit. Debt Service coverage is based upon the revenue of the combined utility functions – Water, Sewer, and Solid Waste.

- **FY 2021/2022 Budget Assumptions**

Total combined revenues for FY 2021/2022 are projected to increase from FY 2020/2021 revenues by 0.30%. With the current 2021/2022 budget year, budget revenues are expected to increase due to Danimer, an industrial customer, who is expected to complete their Phase II expansion in the new budget year. Operating expenses excluding depreciation for FY 2021/2022 are projected to increase from budgeted FY 2020/2021 operating expenses by approximately 6.19%. Operating expenses will be impacted by increased landfill costs, electricity and purchased labor expenses that are directly attributable to the anticipated increased flow at the water and wastewater treatment plants from the expansion of Danimer that is expected in the second quarter of the budget year. Increases also exist in salary and employee related expenses including insurance and pension costs.

The debt service coverage ratio is required to be 1.20 for bonds and 1.00 for KIA. Both formulas calculate by adding depreciation, a non-cash expense back to income available for debt service. The budgeted debt service coverage ratio is 3.18 for Bond debt and 1.01 for KIA debt.

**WINCHESTER MUNICIPAL UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This report is designed to provide the WMU Commission, the City Commission, the customers of WMU and WMU's creditors a general overview of WMU's finances and to demonstrate WMU's financial accountability. Questions should be addressed to:

Kenneth Dryden
General Manager

or

Jennifer Sparks
Director of Finance and Accounting

150 North Main Street
P.O. Box 4177
Winchester, KY 40392-4177
859-744-5434

WINCHESTER MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

ASSETS	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 7,970,739	\$ 7,907,721
Cash and Cash Equivalents, Restricted	713,725	727,989
Accrued Interest, Restricted	9	15,233
Accounts Receivable, Customers (Net of Allowance for Doubtful Accounts, 2021 and 2020, \$155,365 and \$52,090)	2,405,352	2,156,579
SDC Assessments Receivable	242,809	326,809
Other Accounts Receivable	144,902	134,719
Inventory -Materials and Supplies	477,812	448,845
Prepaid Expenses	<u>611,499</u>	<u>566,783</u>
Total Current Assets	<u>12,566,847</u>	<u>12,284,678</u>
NONCURRENT ASSETS:		
Cash and Cash Equivalents, Restricted	5,531,765	9,988,578
Property, Plant & Equipment:		
Utility Systems, Net of Depreciation	99,935,903	103,451,896
Land	1,519,050	1,519,050
Construction in Progress	<u>28,491,886</u>	<u>22,870,326</u>
Total Noncurrent Assets	<u>135,478,604</u>	<u>137,829,850</u>
TOTAL ASSETS	<u><u>\$ 148,045,451</u></u>	<u><u>\$ 150,114,528</u></u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plan	\$ 1,772,898	\$ 2,179,136
OPEB	<u>1,421,642</u>	<u>889,727</u>
Total Deferred Outflows of Resources	<u><u>\$ 3,194,540</u></u>	<u><u>\$ 3,068,863</u></u>

The accompanying notes are integral part of this statement

WINCHESTER MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts Payable	\$ 447,752	\$ 1,351,605
Other Accrued Liabilities	187,933	148,175
Customer Deposits	118,986	117,248
Accrued Interest Payable	49,145	77,266
Current Portion of Long-Term Debt	<u>3,628,230</u>	<u>3,806,166</u>
Total Current Liabilities	<u>4,432,046</u>	<u>5,500,460</u>
NONCURRENT LIABILITIES:		
Compensated Absences	564,088	490,346
Noncurrent Portion of Long-Term Debt	61,484,703	65,011,545
Net Pension Liability	9,705,053	9,050,051
Net OPEB Liability	<u>3,054,518</u>	<u>2,163,768</u>
Total Noncurrent Liabilities	<u>74,808,362</u>	<u>76,715,710</u>
TOTAL LIABILITIES	<u>\$ 79,240,408</u>	<u>\$ 82,216,170</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Plan	\$ 253,358	\$ 360,363
OPEB	<u>616,448</u>	<u>771,012</u>
Total Deferred Inflows of Resources	<u>\$ 869,806</u>	<u>\$ 1,131,375</u>
NET POSITION:		
Net Investment of Capital Assets	\$ 64,833,906	\$ 59,023,561
Restricted for:		
Restricted for Capital Projects	4,570,671	8,415,066
Restricted for Debt Service	1,541,619	2,169,706
Unrestricted	<u>183,581</u>	<u>227,513</u>
TOTAL NET POSITION	<u>\$ 71,129,777</u>	<u>\$ 69,835,846</u>

The accompanying notes are integral part of this statement

WINCHESTER MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES:		
Water	\$ 5,530,010	\$ 5,499,890
Wastewater	8,597,084	8,391,292
Solid Waste	3,848,782	3,729,340
Transfer Station	42,814	55,411
Total Operating Revenues	18,018,690	17,675,933
OPERATING EXPENSES:		
Administrative	2,918,277	2,704,617
Solid Waste	2,108,061	2,206,240
Water	3,866,215	3,876,623
Wastewater	7,155,203	6,990,903
Vehicle Maintenance	152,241	146,743
Total Operating Expenses	16,199,997	15,925,126
OPERATING INCOME (LOSS)	1,818,693	1,750,807
NONOPERATING REVENUES (EXPENSES):		
Interest Income	65,380	213,493
Interest Expense	(1,541,443)	(1,455,794)
Other Income	59,676	133,594
Gain on Sale of Capital Assets	6,075	34,361
Amortization Expense	(101,387)	(79,233)
Total Nonoperating Revenues (Expenses)	(1,511,699)	(1,153,579)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	306,994	597,228
CAPITAL CONTRIBUTIONS	986,937	762,523
CHANGE IN NET POSITION	1,293,931	1,359,751
NET POSITION, BEGINNING OF YEAR	69,835,846	68,476,095
NET POSITION, END OF YEAR	\$ 71,129,777	\$ 69,835,846

The accompanying notes are integral part of this statement

**WINCHESTER MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 17,752,380	\$ 17,550,920
Payments to Suppliers	(5,873,172)	(4,689,937)
Payments to Employees	(5,208,735)	(5,494,619)
Other Operating Receipts (Payments)	<u>(10,183)</u>	<u>(95,285)</u>
Net Cash Provided (Used) by Operating Activities	<u>6,660,290</u>	<u>7,271,079</u>
CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Sale of Equipment	6,075	34,361
Proceeds from Long-Term Debt	-	5,557,703
Bond Issue Costs	-	(47,703)
Principal Payments	(3,699,253)	(9,399,382)
Interest Payments	(1,541,443)	(1,461,024)
Purchase of Property, Plant and Equipment	(6,968,878)	(15,023,465)
Contributed Capital Received	986,937	762,523
Cash from Other Income	<u>59,676</u>	<u>133,594</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,156,886)</u>	<u>(19,443,393)</u>
CASH PROVIDED (USED) BY INVESTING ACTIVITIES:		
Cash from Interest in Investments	<u>88,537</u>	<u>212,130</u>
Net Cash Provided (Used) by Investing Activities	<u>88,537</u>	<u>212,130</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(4,408,059)</u>	<u>(11,960,184)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>18,624,288</u>	<u>30,584,472</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,216,229</u>	<u>\$ 18,624,288</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:		
Cash and Cash Equivalents - unrestricted	\$ 7,970,739	\$ 7,907,721
Cash and Cash Equivalents - restricted current	713,725	727,989
Cash and Cash Equivalents - restricted noncurrent	<u>5,531,765</u>	<u>9,988,578</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,216,229</u>	<u>\$ 18,624,288</u>

The accompanying notes are integral part of this statement

WINCHESTER MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 1,818,693	\$ 1,750,807
Adjustments to Reconcile Operating Income (Loss) to Net		
Cash Provided (Used) by Operating Activities:		
Depreciation	4,851,741	4,970,930
(Increase) Decrease in Assets:		
Accounts Receivable, Customers	(352,048)	(248,786)
SDC Receivables	84,000	132,588
Other Accounts Receivable	(10,183)	(95,285)
Material and Supplies	(28,967)	(22,906)
Prepaid Expenses	(44,716)	(13,794)
Deferred Outflows	(125,677)	(498,910)
Increase (Decrease) in Liabilities:		
Accounts Payable	(903,853)	(224,254)
Accrued Liabilities	39,758	(90,343)
Net Pension Liability	655,002	1,501,727
Net OPEB Liability	890,750	(36,673)
Compensated Absences	73,742	5,841
Accrued Interest Payable	(28,121)	(5,230)
Deferred Inflows	(261,569)	154,181
Customer Deposits	1,738	(8,816)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 6,660,290</u></u>	<u><u>\$ 7,271,079</u></u>
 Supplemental Information, Noncash Transactions		
Donated Capital Assets	<u><u>\$ 705,732</u></u>	<u><u>\$ 527,532</u></u>
Depreciation and Amortization Expense	<u><u>\$ 4,953,128</u></u>	<u><u>\$ 5,050,163</u></u>

The accompanying notes are integral part of this statement

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Winchester Municipal Utilities (WMU) is a 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.

Cash and Cash Equivalents

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 premium checking accounts which are interest bearing.

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

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, 2021 and 2020, \$165,501 and \$80,769 were written off as uncollectible, respectively.

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.

Materials and Supplies Inventory

Materials and supplies are stated at cost. Cost is determined using the "first-in, first-out" method.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

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.

Property, Plant and Equipment

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 acquisition value, the price that would be paid to acquire an asset with equivalent service potential, at the date of donation. Contractor's cost is a level 1 input used to determine acquisition value at the date developers donated 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.

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.

Accrued Compensated Absences

Accumulated vacation, sick leave and compensatory time 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 Premium and Discount Amortization

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, 2021 and 2020 was \$101,388 and \$79,233, respectively.

Interest

Interest is charged to expense as incurred except, WMU follows the policy of capitalizing interest as a component of construction in progress. WMU capitalized \$220,772 of interest during the year ended June 30, 2021. For the years ended June 30, 2021 and 2020, total interest incurred and expensed was \$1,541,443 and \$1,455,794, respectively.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the CERS pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

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 and the related balances in deferred outflows or inflows of resources. 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 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, net of related debt”, are considered unrestricted.

Operating and Nonoperating Revenues and Expenses

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

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.

Capital and Operating Grants and Subsidies

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

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

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

System Development Charges

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.

Basis of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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. WMU participates 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. WMU contributed \$38,092 and \$90,369 for the years ended 2021 and 2020, respectively. CCGIS had accounts payables to WMU of \$47,000 and \$70,167 for the years ended 2021 and 2020, for reimbursements of payroll and other expenses. CCGIS had accounts receivable from WMU of \$0 and \$0 for the years ended 2021 and 2020, respectively, for excess reimbursements of payroll and other expenses. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

New Pronouncements

GASB Statement No. 87, *Leases* (GASB 87), increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that lease are financings of the right to use an underlying asset. GASB 87 will be effective for reporting periods beginning after June 15, 2021. WMU has not determined the financial impact of the implementation of GASBS No. 87.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for WMU beginning with its year ending June 30, 2022. Management is currently evaluating the impact of this Statement on its financial statements.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Pronouncements (Continued)

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020* ("GASB 92"). GASB 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. Provisions related to insurance-related activities of public entity risk pools and derivative instruments were effective upon issuance. All other provisions will be effective for the District beginning with its year ending June 30, 2022. Adoption of the provisions required upon issuance did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. 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. WMU will review its current IT subscription services to evaluate the impact of this standard, but since the recognized value for the intangible assets is generally the same as the corresponding subscription liability, there will be minimal financial impact for WMU.

NOTE 2 – DEPOSITS AND INVESTMENTS

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.

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:

06/30/21		Maturities (in Years)				
Type	Fair Value	< Than 1	1 - 5	6 - 10	> Than 10	
Cash and Cash Equivalents	\$ 14,216,229	\$ 14,216,229	\$ 0	\$ 0	\$ 0	
Total	\$ 14,216,229	\$ 14,216,229	\$ 0	\$ 0	\$ 0	

06/30/20		Maturities (in Years)				
Type	Fair Value	< Than 1	1 - 5	6 - 10	> Than 10	
Cash and Cash Equivalents	\$ 18,624,288	\$ 18,624,288	\$ 0	\$ 0	\$ 0	
Total	\$ 18,624,288	\$ 18,624,288	\$ 0	\$ 0	\$ 0	

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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:

06/30/21		Ratings				
Type	Fair Value	AAA	AA	A	Unrated	
Cash and Cash Equivalents	\$ 14,216,229	\$ 0	\$ 0	\$ 0	\$ 14,216,229	
Total	\$ 14,216,229	\$ 0	\$ 0	\$ 0	\$ 14,216,229	

06/30/20		Ratings				
Type	Fair Value	AAA	AA	A	Unrated	
Cash and Cash Equivalents	\$ 18,624,288	\$ 0	\$ 0	\$ 0	\$ 18,624,288	
Total	\$ 18,624,288	\$ 0	\$ 0	\$ 0	\$ 18,624,288	

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, 2021 and 2020, 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 – CREATION OF ACCOUNTS AND 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:

Revenue Account

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

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 semiannual interest payment plus one-twelfth of the next annual bond principal payment are to be transferred to the account. The account is reflected as currently restricted asset.

Reserve Account

The Reserve Account was established to provide funds for the payment of debt based on the least of three provisions: 1) maximum annual principal and interest, 2) 125% of the average annual principal and interest or 3) 10% of bond proceeds.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 3 – CREATION OF ACCOUNTS AND RESTRICTED ASSETS (CONTINUED)

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.

Operation and Maintenance Account

The Operation and Maintenance Account was established to pay the reasonable, necessary costs of operating, maintaining and repairing the systems.

The restricted assets in the accompanying financial statements are restricted as to use by bond ordinance or by external parties at June 30, 2021 and 2020 follows:

	<u>6/30/21</u>	<u>6/30/20</u>
Restricted by Ordinance:		
Bond Redemption Account	\$ 713,725	\$ 727,989
Reserve Accounts	0	715,861
Depreciation Account	4,183,085	4,073,039
Subtotal	<u>4,896,810</u>	<u>5,516,889</u>
Other Restricted Accounts:		
SDC Water Fund	67,635	697,632
SDC Wastewater Fund	51,826	337,631
Customer Deposits	133,201	131,795
KIA Reserve	827,894	725,856
Water Improvements	239,428	3,116,703
Capital Accum-Water	19,508	25,015
Capital Accum–Wastewater	9,188	165,046
Total	<u>\$ 6,245,490</u>	<u>\$ 10,716,567</u>
Current Restricted	<u>\$ 713,725</u>	<u>\$ 727,989</u>
Noncurrent Restricted	<u>\$ 5,531,765</u>	<u>\$ 9,988,578</u>

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

WMU's property, plant and equipment as of June 30, 2021 and 2020 are as follows:

<u>6/30/2021</u>	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
Non-depreciable Assets:				
Land	\$ 1,519,050	\$ 0	\$ 0	\$ 1,519,050
Construction in Progress	22,870,326	5,621,560	0	28,491,886
Total Non-depreciable Assets	\$ 24,389,376	\$ 5,621,560	\$ 0	\$ 30,010,936
Depreciable Assets:				
Administrative	\$ 3,650,181	\$ 103,155	\$ (387,558)	\$ 3,365,778
Water System	59,958,328	1,438,540	(933,874)	60,462,994
Wastewater System	115,539,492	1,368,451	(698,865)	116,209,078
Solid Waste	8,319,098	132,503	(133,812)	8,317,789
Vehicle Maintenance	480,561	13,655	(7,417)	486,799
Equipment Capital Lease	7,500	0	0	7,500
Subtotal	187,955,160	3,056,304	(2,161,526)	188,849,938
Accumulated Depreciation:				
Administrative	(2,369,812)	(108,430)	363,493	(2,114,749)
Water System	(19,402,342)	(1,303,205)	12,514	(20,693,033)
Wastewater System	(39,689,319)	(3,077,759)	21	(42,767,057)
Solid Waste	(3,445,128)	(352,341)	60,262	(3,737,207)
Vehicle Maintenance	(365,907)	(9,878)	4,552	(371,233)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
Subtotal	(84,503,264)	(4,851,613)	440,842	(88,914,035)
Total Net Property, Plant and Equipment	\$ 103,451,896	\$ (1,795,309)	\$ (1,720,684)	\$ 99,935,903

<u>06/30/20</u>	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
Non-depreciable Assets:				
Land	\$ 1,519,050	\$ 0	\$ 0	\$ 1,519,050
Construction in Progress	9,555,241	13,315,085	0	22,870,326
Total Non-depreciable Assets	\$ 11,074,291	\$ 13,315,085	\$ 0	\$ 24,389,376
Depreciable Assets:				
Administrative	\$ 3,641,543	\$ 153,610	\$ (144,972)	\$ 3,650,181
Water System	59,081,495	1,746,389	(869,557)	59,958,327
Wastewater System	114,896,260	2,390,373	(1,747,141)	115,539,492
Solid Waste	8,245,548	530,385	(456,835)	8,319,098
Vehicle Maintenance	477,696	2,866	0	480,562
Equipment Capital Lease	7,500	0	0	7,500
Subtotal	186,350,042	4,823,623	(3,218,505)	187,955,160
Accumulated Depreciation:				
Administrative	(2,260,672)	(124,241)	15,102	(2,369,811)
Water System	(18,114,880)	(1,332,004)	44,542	(19,402,342)
Wastewater System	(36,608,516)	(3,123,741)	42,937	(39,689,320)
Solid Waste	(3,062,362)	(382,766)	0	(3,445,128)
Vehicle Maintenance	(357,893)	(8,015)	0	(365,907)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
Subtotal	(79,635,079)	(4,970,767)	102,581	(84,503,264)
Total Net Property, Plant and Equipment	\$ 106,714,963	\$ (147,144)	\$ (3,115,924)	\$ 103,451,896

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	2021	2020
Administrative	\$ 108,593	\$ 124,404
Water System	1,303,205	1,332,004
Wastewater System	3,077,724	3,123,741
Solid Waste	352,341	382,766
Vehicle Maintenance	9,878	8,015
Total Depreciation Expense	<u>\$ 4,851,741</u>	<u>\$ 4,970,930</u>

The net investment in capital assets at June 30, 2021 and 2020 is composed of the following elements:

	2021	2020
Capital Assets	\$ 129,946,839	\$ 127,841,272
Total Debt, Net of Unamortized Bond Discount	<u>(65,112,933)</u>	<u>(68,817,711)</u>
Net Investment in Capital Assets	<u>\$ 64,883,906</u>	<u>\$ 59,023,561</u>

NOTE 5 – LONG-TERM DEBT

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, 2021 and 2020, are summarized as follows:

Description	Rate	Maturity	Original Issue	2021 Total	2020 Total
2011 Issue	5.27%	01/01/31	\$ 9,010,000	\$ 0	\$ 245,000
2012 Issue	2.00-3.75%	07/01/32	7,495,000	4,595,000	4,940,000
2014 Issue	2.00-4.00%	07/01/45	9,915,000	8,615,000	8,850,000
2018 Issue	3.00-4.00%	07/01/42	13,045,000	12,915,000	12,980,000
2020 Issue	1.49%	07/01/31	5,557,703	5,557,703	5,557,703
Less: Unamortized Discount				<u>(378,765)</u>	<u>(480,153)</u>
Total Bonds				31,303,938	32,092,550
KIA-Strodes Creek	1.00%	12/01/28	21,000,000	8,371,491	9,441,114
		Estimate			
KIA-Lower Howards Creek	2.00%	01/01/31	36,600,000	23,679,534	25,414,834
		Estimate			
KIA-Bel-Air	2.00%	01/01/31	1,000,000	347,580	372,971
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	178,544	195,449
KIA-Vaught Court	2.00%	06/01/31	287,400	143,533	157,952
KIA-Hampton Manor	1.75%	06/01/37	\$ 1,249,088	1,088,313	1,142,841
Total KIA Loans				33,808,995	36,725,161
Total Bonds and KIA Loans				65,112,933	68,817,711
Less: Current Maturities				<u>(3,628,230)</u>	<u>(3,806,166)</u>
Total Long-Term Debt				<u>\$ 61,484,703</u>	<u>\$ 65,011,545</u>

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 5 – LONG-TERM DEBT (CONTINUED)

The annual bond and long-term debt service requirements, as of June 30, 2021, are as follows:

Fiscal Year		Principal		Interest		Total
2022	\$	3,628,232	\$	1,555,847	\$	5,184,079
2023		4,077,526		1,486,560		5,564,086
2024		4,431,939		1,410,011		5,841,950
2025		4,517,993		1,327,436		5,845,429
2026		4,607,601		1,242,566		5,850,167
2027-2031		22,127,690		4,818,535		26,946,225
2032-2036		11,850,331		2,605,917		14,456,248
2037-2041		7,140,386		1,361,200		8,501,586
2042-2045		3,110,000		241,250		3,351,250
	\$	<u>65,491,698</u>	\$	<u>16,049,322</u>	\$	<u>81,541,020</u>

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.

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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 5 – LONG-TERM DEBT (CONTINUED)

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, 2020, 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.

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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 5 – LONG-TERM DEBT (CONTINUED)

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. 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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 5 – LONG-TERM DEBT (CONTINUED)

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 years ended June 30, 2021 and 2020 are as follows:

06/30/21 Description	Beginning	Borrowings Additions	Repayments Reductions	2021 Ending	Current
Compensated Absences	\$ 490,346	\$ 73,742	\$ 0	\$ 564,088	\$ 4,354
Bonds	32,092,550	0	788,612	31,303,938	670,000
KIA-Strodes Creek	9,441,114	0	1,069,623	8,371,491	1,080,347
KIA-Lower Howards	25,414,835	0	1,735,300	23,679,535	1,764,541
KIA-Bel-Air	372,971	0	25,391	347,580	25,902
KIA-Storage Tank	195,449	0	16,905	178,544	17,246
KIA-Vaught Court	157,952	0	14,419	143,533	14,708
KIA-Hampton Manor	1,142,841	0	54,528	1,088,313	55,486
Total Long-Term Debt	<u>\$ 69,308,057</u>	<u>\$ 73,742</u>	<u>\$ 3,704,778</u>	<u>\$ 65,677,021</u>	<u>\$ 3,632,584</u>

06/30/20 Description	Beginning	Borrowings Additions	Repayments Reductions	2020 Ending	Current
Compensated Absences	\$ 484,505	\$ 5,841	\$ 0	\$ 490,346	\$ 70,583
Bonds	33,050,093	5,557,703	6,515,246	32,092,550	890,000
KIA-Strodes Creek	10,500,120	0	1,059,005	9,441,115	1,069,623
KIA-Lower Howards	27,105,000	0	1,690,167	25,414,833	1,729,775
KIA-Bel-Air	397,861	0	24,890	372,971	25,392
KIA-Storage Tank	212,021	0	16,572	195,449	16,906
KIA-Vaught Court	172,086	0	14,134	157,952	14,418
KIA-Hampton Manor	1,196,428	0	53,586	1,142,841	54,528
Total Long-Term Debt	<u>\$ 73,118,114</u>	<u>\$ 5,563,544</u>	<u>\$ 9,373,600</u>	<u>\$ 69,308,057</u>	<u>\$ 3,871,225</u>

NOTE 6 – COMPLIANCE WITH COVENANTS

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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 6 – COMPLIANCE WITH COVENANTS (CONTINUED)

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, 2021 and 2020.

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, 2021 and 2020.

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:

	2021	2020
Income Available for Debt Service	\$ 1,818,693	\$ 2,132,255
Add: Depreciation and Change in Pension & OPEB Liability	<u>6,010,247</u>	<u>6,091,255</u>
Cash Available for Bond Debt Service	<u>\$ 7,828,940</u>	<u>\$ 8,223,510</u>
Annual Debt Service on Bonds	<u>1,974,502</u>	<u>2,273,488</u>
Coverage Ratio	<u>3.97</u>	<u>3.62</u>

KIA:

	2021	2020
Income Available for Debt Service	\$ 1,818,693	\$ 2,132,255
Add: Depreciation and Change in Pension & OPEB Liability	<u>6,010,247</u>	<u>6,091,255</u>
Cash Available for Debt Service	<u>\$ 7,828,940</u>	<u>\$ 8,223,510</u>
Annual Debt Service on all Debt	<u>5,510,473</u>	<u>5,809,459</u>
Coverage Ratio	<u>1.42</u>	<u>1.42</u>

WMU is in compliance with these covenants as of June 30, 2021 and 2020.

NOTE 7 – RETIREMENT PLANS

WMU's employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 7 – RETIREMENT PLANS (COUNTINUED)

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

Plan description—Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA), an agency of the Commonwealth of Kentucky. As of April 1, 2021, 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 <http://kyret.ky.gov/>.

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

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

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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

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, 2021, WMU reported a liability for its proportionate share of the net pension liability for CERS.

The amount recognized by WMU 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 WMU were as follows:

WMU's proportionate share of the CERS net pension liability	\$ 9,705,053
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The net pension liability for each plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

WMU'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, 2020, WMU's proportion was 0.123534 percent. For the year ended June 30, 2021, WMU recognized pension expense of \$954,236 related to CERS.

At June 30, 2021, WMU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 242,013	\$ -
Changes of assumptions	378,966	-
Net difference between projected and actual earnings on pension plan investments	420,682	177,825
Changes in proportion and differences between District contributions and proportionate share of contributions	132,249	75,533
WMU contributions subsequent to the measurement date	598,988	-
	<u>\$ 1,772,898</u>	<u>\$ 253,358</u>

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

\$598,988 reported as deferred outflows of resources related to pensions resulting from WMU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2022	\$455,459
2023	\$255,002
2024	\$112,553
2025	\$97,538
2026	\$0

Actuarial assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Price inflation	2.30%
Cost-of-living adjustment	0.0%
Salary increases	3.30% - 10.30%
Investment rate of return	6.25%

For CERS, mortality tables were revised for the 2019 measurement based on an experience study completed in March 2019. The mortality table 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. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

However, the expected returns in the following table are based on ten-year yields developed by the investment consultant based on their capital market analysis prior to the impact of COVID.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Ten-Year Expected Real Rate of Return</u>
Growth:	<u>62.50%</u>	
U. S. Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Credit	10.00%	6.65%
High Yield Credit	15.00%	3.90%
Liquidity:	<u>14.50%</u>	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	
Expected Real Return		3.96%
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.26%</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. Beginning 2018, the Kentucky General Assembly allowed CERS employers to use a ten-year phase-in for the significant contribution increases that resulted when the earnings assumption was lowered from 7.5% to 6.25%. This phased-in approach is the current “statutory contribution rates” based on actuarial projections, but limited to no more than a 12% annual increase. In 2020, the General Assembly froze employer contribution rates for local governments participating in CERS for fiscal year 2021. 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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

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

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
CERS WMU's proportionate share of net pension liability	\$ 11,968,442	\$ 9,705,053	\$ 7,830,881

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.

Deferred Compensation

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 8 – POST-EMPLOYMENT HEALTH CARE BENEFITS

WMU's employees are provided with an OPEB plan through the County Employees Retirement System. Retired WMU employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance funded on an actuarially determined basis through the CERS plan. The change in governance for CERS discussed in Note 7 for pension plan governance also applies to the CERS OPEB plans. The Kentucky Public Pensions Authority's publicly available financial report includes the CERS OPEB plan reports and may be obtained from <http://kyret.ky.gov/>.

CERS Other Postemployment Benefits

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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 8 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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. For the 2020 measurement period, CERS allocated 4.76% of the 19.30% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1% of the Tier 2 and 3 6% employee contributions are allocated to the health insurance plan.

CERS OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2021, WMU reported a liability of \$3,054,518 for its proportionate share of the CERS collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of WMU's long-term share of contributions to OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, WMU's proportion was 0.126497 percent.

The amount recognized by WMU as its proportionate share of the OPEB liability was \$3,054,518 as of June 30, 2021, and \$2,163,768 as of June 30, 2020. WMU recognized OPEB expense of \$204,271 as the OPEB liability and the related deferred inflows of resources decreased while deferred outflows of resources increased.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 8 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

At June 30, 2021, WMU reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

CERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 510,346	\$ 510,744
Changes of assumptions	531,306	3,231
Net difference between projected and actual earnings on OPEB plan investments	163,853	62,327
Changes in proportion and differences between District contributions and proportionate share of contributions	68,407	40,146
WMU contributions subsequent to the measurement date	147,730	-
	<u>\$ 1,421,642</u>	<u>\$ 616,448</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$147,730 resulting from WMU contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in WMU's OPEB expense as follows:

Year ended June 30:	
2022	\$174,088
2023	\$204,133
2024	\$146,553
2025	\$136,892
2026	(\$4,202)
Thereafter	\$0

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 8 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Actuarial assumptions – The total OPEB liability in the June 30, 2020 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 starting at 6.40%, January 2022, 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 2.90%, January 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Municipal Bond Index Rate	2.45%
Discount Rate	5.34% non-hazardous and 5.30% hazardous

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.

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, 2020 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 2020 for use with the June 30, 2020 valuation in order to reflect future economic expectations.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate 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 class are summarized in the table below.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 8 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

However, the expected returns in the following table are based on ten-year yields developed by the investment consultant based on their capital market analysis prior to the impact of COVID.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Ten-Year Expected Real Rate of Return</u>
Growth:	62.50%	
U. S. Equity	18.75%	4.50%
International Equity	18.75%	5.25%
Private Credit	10.00%	6.65%
High Yield Credit	15.00%	3.90%
Liquidity:	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies:		
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	<u>15.00%</u>	3.95%
Total	<u>100.00%</u>	
Expected Real Return		3.96%
Long Term Inflation Assumption		<u>2.30%</u>
Expected Nominal Return for Portfolio		<u>6.26%</u>

Discount rate – The single discount rate of 5.34% for CERS nonhazardous and 5.30% for CERS hazardous was used to measure the total OPEB liability as of June 30, 2020. 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 2.45%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2020. 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 (24 years as of June 30, 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 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. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 8 – POST-EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The following table presents WMU's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34%, as well as what WMU'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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

	1% Decrease 4.34%	Current Discount Rate 5.34%	1% Increase 6.34%
CERS WMU's proportionate share of net OPEB liability	\$ 3,924,159	\$ 3,054,518	\$ 2,340,253

Sensitivity of WMU's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents WMU's proportionate share of the collective net OPEB liability, as well as what WMU's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease 6.00% decreasing to 3.05%	Current Health Care Trend Rate 7.00% decreasing to 4.05%	1% Increase 8.00% decreasing to 5.05%
CERS WMU's proportionate share of net OPEB liability	\$ 2,364,960	\$ 3,054,518	\$ 3,891,312

The Kentucky Public Pensions Authority's publicly available financial report includes financial reports for the CERS OPEB plans and may be obtained from <http://kyret.ky.gov/>.

NOTE 9 – ECONOMIC DEPENDENCY

WMU is economically dependent on the following six entities which account for 31% and 18%, respectively, of water and wastewater revenues for the following years:

Name	2021	2020
Danimer Scientific	\$ 1,473,191	\$ 588,441
The Kroger Company	1,203,346	801,489
Sekisui	533,326	337,397
East Clark County WD	431,004	289,643
Housing Authority	400,233	210,205
Infiltrator	381,987	320,458
	<u>\$ 4,423,088</u>	<u>\$ 2,547,632</u>

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 10 – RISK OF LOSS

WMU is 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. WMU carries commercial insurance for the risks of loss, including worker's compensation, and property and casualty loss insurance.

NOTE 11 – 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.

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 12 – UTILITY REVENUES PLEDGED

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2011, 2012, 2014, 2018, and 2020 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.

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 13 – FIVE YEAR CAPITAL CONSTRUCTION PLAN

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

Water Utility Improvements	\$ 4,871,437
Wastewater Utility Improvements	13,080,000
Total projected financing requirement	<u>\$ 17,951,437</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	\$ 5,000
Upgrade Local Area Network	20,000
Replace Microcomputers	10,000
Upgrade Office Suite Software	15,000
Field Operation Vehicles	310,000
Solid Waste Collection:	
Cubit Replacement	25,000
Container Replacement	50,000
Replace Compactor Ejector Box	10,000
Solid Waste Recycling	500
Water Treatment Plant Equipment Improvements	25,000
Water Distribution:	
Main Replacement	100,000
Fire Hydrant Replacement	12,000
Gate Value Replacement	10,000
Elevated Storage Tank Rehabilitation	120,000
Meter Change-Out/AMR Equipment	260,000
New Meter Services	60,000
Large Meter Change Out Program	50,000
Wastewater Collection:	
Main Replacement Program	100,000
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

**WINCHESTER MUNICIPAL UTILITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

NOTE 13 – FIVE YEAR CAPITAL CONSTRUCTION PLAN (CONTINUED)

Wastewater Treatment Plant (SC):	
Replacement of Laboratory Equipment	3,000
Annual Allocation for Equipment Improvements	60,000
Wastewater Solids Processing (SC):	
Annual Allocation for Equipment Improvements	65,000
Wastewater Treatment Plant (LHC)	55,000
Annual Allocation for Solids Equipment/Improvements	15,000
Total Annual Allocations for Infrastructure Investment	<u>\$ 1,558,500</u>

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

NOTE 14 – COMMITMENTS

On December 7, 2017, WMU approved a contract for a new water treatment plant. The current contract, with approved change orders, is \$20,359,257. The project is being primarily financed with the sale of bonds sold in 2018. The project was considered substantially complete on February 24, 2021. Staff is in the process of decommissioning the old water treatment plant. Project closeout is anticipated to occur during the 4th Quarter of 2021.

On February 21, 2019, WMU approved a contract with Flotweg for a centrifuge equipment in the amount of \$998,000, for the Strodes Creek Solids Facilities Improvements. The Kentucky Division of Water approved the design and construction of the project on October 4, 2019.

On March 19, 2020, WMU Commission accepted the bid for the construction of the Strodes Creek Facilities improvement project of \$3,473,480. The project is approximately 40% complete.

NOTE 15 – ASSET RETIREMENT OBLIGATIONS

Management of WMU have reviewed the impact of GASB 83, *Certain Asset Retirement Obligations* on the wastewater plant facilities. WMU plans are to repurpose such facilities for an alternative use, which has already been implemented. As such, WMU has not recognized a liability under this Standard.

NOTE 17 – SUBSEQUENT EVENTS

WMU has evaluated all subsequent events through October 22, 2021, the date the financial statements were available to be issued.

NOTE 18 – RISKS AND UNCERTAINTIES

Prior to the year ended June 30, 2021, 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 WMU will depend on future developments which are highly uncertain and cannot be predicted.

WINCHESTER MUNICIPAL UTILITY
REQUIRED SUPPLEMENTARY INFORMATION

**WINCHESTER MUNICIPAL UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021**

	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)
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:							
WMU's proportion of the net pension liability	0.126534%	0.128679%	0.123940%	0.121256%	0.121853%	0.120770%	0.114924%
WMU's proportionate share of the net pension liability	\$ 9,705,053	\$ 9,050,051	\$ 7,548,324	\$ 7,097,486	\$ 5,999,576	\$ 5,192,479	\$ 3,728,580
WMU's covered-employee payroll	\$ 3,116,219	\$ 3,120,203	\$ 3,042,637	\$ 2,881,394	\$ 2,960,432	\$ 2,905,451	\$ 2,837,568
WMU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	311.44%	290.05%	248.08%	246.32%	202.66%	178.72%	131.40%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

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 WMU's fiscal year.

**WINCHESTER MUNICIPAL UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED JUNE 30, 2021**

	2021	2020	2019	2018	2017	2016	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM:								
Contractually required contribution	\$ 598,988	\$ 606,228	\$ 504,601	\$ 444,802	\$ 411,845	\$ 346,191	\$ 360,574	\$ 498,044
Contributions in relation to the contractually required contribution	<u>598,988</u>	<u>606,228</u>	<u>504,601</u>	<u>444,802</u>	<u>411,845</u>	<u>346,191</u>	<u>360,574</u>	<u>498,044</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
WMU's covered-employee payroll	\$ 3,103,565	\$ 3,141,078	\$ 3,111,209	\$ 3,042,637	\$ 2,881,394	\$ 2,960,432	\$ 2,905,451	\$ 2,837,568
WMU's contributions as a percentage of its covered-employee payroll	19.30%	19.30%	16.22%	14.62%	14.29%	11.69%	12.41%	17.55%

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

WINCHESTER MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
FOR THE YEAR ENDED JUNE 30, 2021

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Changes of Benefit Terms -

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

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

Actuarial Methods and Assumptions:

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. The Kentucky General Assembly reset the amortization period for the unfunded liability as of July 1, 2020, to a closed 30-year period in an effort to help local governments address funding concerns caused by the Covid-19 pandemic.

The 2020 actuarial valuation used update mortality tables for all categories of members and beneficiaries and a system-specific mortality table for non-disabled retirees. In 2020, 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.

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 2017 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

**WINCHESTER MUNICIPAL UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021**

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
COUNTY EMPLOYEES RETIREMENT SYSTEM:				
WMU's proportion of the net OPEB liability	0.126497%	0.128646%	0.123940%	0.121256%
WMU's proportionate share of the net OPEB liability	\$ 3,054,518	\$ 2,163,768	\$ 2,200,441	\$ 2,437,660
WMU's covered-employee payroll	\$ 3,116,219	\$ 3,120,203	\$ 3,042,637	\$ 2,881,394
WMU's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	98.02%	69.35%	72.32%	84.60%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%	52.40%

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 WMU's fiscal year.

**WINCHESTER MUNICIPAL UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE YEAR ENDED JUNE 30, 2021**

	2021	2020	2019	2018	2017
COUNTY EMPLOYEES RETIREMENT SYSTEM:					
Contractually required contribution	\$ 147,730	\$ 149,515	\$ 163,638	\$ 144,376	\$ 139,644
Contributions in relation to the contractually required contribution	<u>147,730</u>	<u>149,515</u>	<u>163,638</u>	<u>144,376</u>	<u>139,644</u>
Contribution deficiency (excess)	-	-	-	-	-
WMU's covered-employee payroll	\$ 3,103,565	\$ 3,141,078	\$ 3,111,209	\$ 3,042,637	\$ 2,881,394
WMU's contributions as a percentage of its covered-employee payroll	4.76%	4.76%	5.26%	4.75%	4.85%

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

WINCHESTER MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
FOR THE YEAR ENDED JUNE 30, 2021

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Valuation Date: June 30, 2020

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%

WINCHESTER MUNICIPAL UTILITY
SUPPLEMENTAL SCHEDULES

WINCHESTER MUNICIPAL UTILITIES
SCHEDULE I - DEPARTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ADMINISTRATIVE		
Salaries	\$ 1,070,813	\$ 1,022,334
Employee Benefits	961,341	900,539
Repairs and Maintenance	179,571	117,669
Supplies	41,242	35,048
Small Tools	2,896	2,645
Utilities and Telephone	31,259	35,514
Property Insurance	45,444	46,597
Other	164,696	138,955
Postage and Freight	48,209	54,711
Bad Debts	165,501	80,769
Professional Fees	98,739	145,432
Depreciation/Amortization	<u>108,566</u>	<u>124,404</u>
	<u>2,918,277</u>	<u>2,704,617</u>
 SOLID WASTE		
Salaries	610,264	631,022
Employee Benefits	485,686	520,385
Repairs and Maintenance	285,155	281,264
Supplies	10,661	13,181
Small Tools	1,252	1,858
Utilities and Telephone	19,967	23,215
Property Insurance	43,412	39,544
Other	8,597	9,054
Depreciation	352,341	382,766
Landfill Charges	<u>290,726</u>	<u>303,951</u>
	<u>2,108,061</u>	<u>2,206,240</u>
 WATER		
Salaries	705,941	763,932
Employee Benefits	631,686	620,668
Repairs and Maintenance	161,945	182,631
Supplies	397,726	361,360
Small Tools	8,565	22,254
Utilities and Telephone	522,274	454,451
Property Insurance	101,718	93,806
Other	28,158	41,488
Postage	129	12
Professional Fees	584	992
Depreciation/Amortization	1,303,219	1,332,004
New Services	<u>4,270</u>	<u>3,025</u>
	<u>\$ 3,866,215</u>	<u>\$ 3,876,623</u>

WINCHESTER MUNICIPAL UTILITIES
SCHEDULE I - DEPARTMENT EXPENSES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
WASTEWATER		
Salaries	\$ 998,561	\$ 1,080,750
Employee Benefits	925,703	899,819
Repairs and Maintenance	499,842	431,300
Supplies	265,397	183,341
Small Tools	15,589	16,730
Utilities and Telephone	973,859	830,776
Property Insurance	126,731	136,758
Other	50,400	38,376
Postage	28	174
Professional Fees	221,212	249,028
Depreciation/Amortization	3,077,737	3,123,741
New Services	144	110
	<u>7,155,203</u>	<u>6,990,903</u>
 VEHICLE MAINTENANCE		
Salaries	25,411	26,629
Employee Benefits	65,335	64,365
Repairs and Maintenance	13,513	7,296
Supplies	2,761	2,831
Small Tools	1,754	3,428
Utilities and Telephone	21,880	22,742
Property Insurance	10,080	10,440
Other	1,629	997
Depreciation/Amortization	9,878	8,015
	<u>152,241</u>	<u>146,743</u>
 TOTAL OPERATING EXPENSES	 <u><u>\$ 16,199,997</u></u>	 <u><u>\$ 15,925,126</u></u>

**WINCHESTER MUNICIPAL UTILITIES
SCHEDULE II - REVENUE BOND DEBT SERVICES
FOR THE YEAR ENDED JUNE 30, 2021**

Maturity Date	2020 Issue		2018 Issue		2014 Issue		2012 Issue		2011 Issue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2021-2022	-	82,810	75,000	438,944	240,000	301,606	355,000	154,744	-	-	670,000	978,104
2022-2023	375,860	82,810	80,000	435,944	250,000	294,406	365,000	144,094	-	-	1,070,860	957,254
2023-2024	650,975	77,209	95,000	432,744	255,000	286,906	375,000	133,144	-	-	1,375,975	930,003
2024-2025	661,854	67,510	95,000	428,944	265,000	279,256	390,000	121,894	-	-	1,411,854	897,604
2025-2026	670,393	57,648	110,000	425,144	270,000	271,306	400,000	109,705	-	-	1,450,393	863,803
2026-2027	679,093	47,659	120,000	420,744	280,000	263,206	415,000	96,705	-	-	1,494,093	828,314
2027-2028	689,113	37,541	130,000	415,944	290,000	254,806	430,000	82,700	-	-	1,539,113	790,991
2028-2029	699,028	27,273	125,000	410,744	295,000	246,106	445,000	67,650	-	-	1,585,028	751,773
2029-2030	711,562	16,858	140,000	381,744	305,000	236,961	460,000	52,074	-	-	1,616,562	687,637
2030-2031	419,825	6,255	475,000	376,144	315,000	227,506	480,000	35,400	-	-	1,689,825	645,305
2031-2032			945,000	361,894	325,000	216,875	480,000	18,000	-	-	1,750,000	596,769
2032-2033			1,475,000	333,544	340,000	205,906	-	-	-	-	1,815,000	539,450
2033-2034			790,000	287,450	350,000	194,006	-	-	-	-	1,140,000	481,456
2034-2035			810,000	261,775	365,000	181,756	-	-	-	-	1,175,000	443,531
2035-2036			840,000	235,450	375,000	168,981	-	-	-	-	1,215,000	404,431
2036-2037			865,000	208,150	390,000	155,856	-	-	-	-	1,255,000	364,006
2037-2038			895,000	178,956	405,000	141,719	-	-	-	-	1,300,000	320,675
2038-2039			1,010,000	148,750	420,000	127,038	-	-	-	-	1,430,000	275,788
2039-2040			1,045,000	113,400	435,000	111,817	-	-	-	-	1,480,000	225,217
2040-2041			1,080,000	76,825	450,000	95,500	-	-	-	-	1,530,000	172,325
2041-2042			1,115,000	39,025	470,000	78,625	-	-	-	-	1,585,000	117,650
2042-2043			-	-	490,000	61,000	-	-	-	-	490,000	61,000
2043-2044			-	-	505,000	41,400	-	-	-	-	505,000	41,400
2044-2045	-	-	-	-	530,000	21,200	-	-	-	-	530,000	21,200
	<u>\$ 5,557,703</u>	<u>\$ 503,573</u>	<u>12,915,000</u>	<u>\$ 6,412,259</u>	<u>\$ 8,615,000</u>	<u>\$ 4,463,744</u>	<u>\$ 4,595,000</u>	<u>\$ 1,016,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,682,703</u>	<u>\$ 12,395,686</u>

SUMMERS, McCRARY & SPARKS, P.S.C.

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

To the Board of Commissioners
Winchester Municipal Utilities
Winchester, KY

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 business-type activities of Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated October 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, 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 Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, internal control. Accordingly, we do not express an opinion on the effectiveness of the Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Winchester Municipal Utilities, component unit of the City of Winchester, Kentucky, financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Winchester, Kentucky
October 22, 2021