

CITY OF WINCHESTER

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

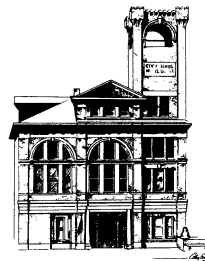
FOR THE YEAR ENDED JUNE 30, 2020

CITY OF WINCHESTER, KENTUCKY
JUNE 30, 2020

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City of Winchester



Finance Department

Established 1793

January 29, 2021

Mayor Edallen York Burtner
Members of the Board of Commissioners
Residents of Winchester

Dear Mayor, City Commissioners, and Residents of Winchester:

We are pleased to submit the annual audited Financial Statements for the fiscal year ended June 30, 2020. These Financial Statements were prepared in conformance with *Generally Accepted Accounting Principles* (GAAP) and the reporting standards of the *Governmental Accounting Standards Board* (GASB).

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

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

The independent accounting firm of Summers, McCrary, and Sparks P.S.C., Certified Public Accountants, has reasonable assurance that these financial statements for the fiscal year ended June 30, 2020 are free of any material misstatement. Requests for Single Audit Reports should be directed to the City's Finance Department.

PROFILE OF GOVERNMENT

The City of Winchester, Kentucky was incorporated in 1793. The city is the county seat of Clark County, which is in central Kentucky, commonly referred to as the Bluegrass Region. The City currently occupies 8.4 square miles (5,377 acres) and serves a population of 18,574 (2020 census data projection).

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

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

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

WMU is a municipal utility enterprise fund separate from the City and which has been separately audited. A full discussion of WMU's financial activities can be found in that audit. WMU's audit was prepared by Summers, McCrary, and Sparks, PSC and was accepted by the utility commission on December 10, 2020.

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

BUSINESS INCENTIVE PROJECTS

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

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

We now have four local participation agreements – AMZN wacs, Catalent, Taica, and Walle. The Business Incentive Projects table shows the activation dates. That is when the term begins for each project.

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

The Kentucky Economic Development Bond (EDB) program is used for extraordinary project financing not covered with other funds. This program can be funded by the state or the local district. The KEFDA approved (03-29-2012) an EDB of \$250,000, through the City of Winchester, for Amazon. This EDB grant was funded by the WCC-IDA.

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

Many projects listed below have received preliminary or final approval from the KEFDA for one or more of these programs. These programs have helped our economy tremendously.

RECIPIENT	PROGRAM	TOTAL PROJECT COST	MAX TAX INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS	AGREEMENT DATE	OCC LICENSE TAX PLEDGED	ACTIVATION DATE
Advanced Green Components LLC	KBI	\$11,960,000	\$750,000	80	40			2/23/2019

KEFDA projects (continued)

RECIPIENT	PROGRAM	TOTAL PROJECT COST	MAX TAX INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS	AGREEMENT DATE	OCC LICENSE TAX PLEDGED	ACTIVATION DATE
AMZN wacs Inc	KBI	\$20,411,340	\$10,250,000	NA	550	Reso #R2015-1 3/3/2015 Term 10 yrs	1%	3/26/2015
Catalent Pharma Solutions LLC	KBI	\$46,800,000	\$2,000,000	307	90	Reso #R2013-6 11/5/2013 Term - 10 yrs	1%	12/12/2015
J&T Munitions Inc dba J&T Distibuting	KBI	\$3,615,800	\$200,000	NA	15			4/27/2019
Taica Corporation	KBI	\$8,049,232	\$500,000	NA	30	Reso# R2014-5 5/6/2014 Term 10 yrs	0.50%	1/01/2016
The Freeman Corp	KBI	\$3,440,000	\$500,000	202	32			4/28/2018
Walle Corporation	KBI	\$4,135,000	\$500,000	114	23	Order #2012-117 10/12/2012 Term - 10 yrs	1%	6/26/2016
Walle was sold to Fort Dearborn Winchester, 01/01/2020								

TAX INCREMENT FINANCING

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

In 2010, by Ordinance No. 1-2010, the City and County created a TIF district in the area around Winchester Plaza. The local participation agreement is for 20 years. The City pledged 100% of the incremental real ad valorem taxes and 50% of the incremental occupational license fees to the developer. The Winchester Plaza renovations were completed about ten years ago. Business activity in the area continues to thrive.

The 2013 payroll taxes decreased when Amazon moved into their permanent building. Winchester Plaza is an improved anchor for our community. In 2020 Peebles Department Store was replaced with Gordman's Department store that later closed due to Co-Vid 19 pandemic now leaving that retail space vacant.

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

WINCHESTER PLAZA TIF DISTRICT	
2010-2011	\$14,884
2012	\$39,667
2013	\$17,015
2014	\$21,890
2015	\$28,365
2016	\$24,675
2017	<u>\$25,570</u>
Total Payments to Date	\$172,066

On March 21, 2017, the final Downtown Master Plan was accepted. On April 18, 2017 the City approved Order No. 2017-44 approving legal services to establish a TIF district in the downtown area. This project is still in the planning stage.

REVENUE SHARING

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

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

REVENUE SHARING FISCAL COURT	
2012	\$128,019
2013	\$150,969
2014	\$238,306
2015	\$249,996
2016	\$286,620
2017	\$352,058

REVENUE SHARING	
2018	\$355,602
2019	\$307,312
2020	\$289,671
Total Payments to Date	\$2,358,553

INDUSTRIAL PARK

Several companies at the Industrial Park have invested in expansion projects or built new facilities. These expansions have added more jobs for our community.

Catalent completed construction on their \$52 million expansion and added 200 new jobs. They also announced another expansion of \$62 million and adding 300 more jobs. To this end, the City of Winchester approved the issuance of Industrial Building Revenue bonds of up to \$140 million to help Catalent construct an 80,000 square-foot expansion for the pharmaceutical manufacturing facility. On December 13, 2016, the City approved Order No. 2016-181 amending the lease agreement adding an additional tract of land.

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

Walle Corporation was sold to Fort Dearborn Winchester 1/1/2020 and will have to go back through the approval process for business incentives through the Kentucky Industrial Development ACT (KIDA).

STATUS OF GRANTS

The City of Winchester vigorously pursues grant opportunities to aid in the development and improvement of its services, equipment, and infrastructure. During FY2020, the City applied for several grants. Listed below is the status of grant applications.

1. CDBG – Lincoln Street Redevelopment Project, \$1,000,000 approved.
2. FEMA Assistance to Firefighters Grant, SAFER Grant three additional personnel, \$359,018, approved
3. KBEMS \$10,000, pass through the County.
4. State Fire Commission Grant \$30,172, pending
5. US Office of Homeland Security Assistance to Firefighters Grant, Exhaust Capturing System (95/5 match) \$180,000, approved COMPLETED FY2020

6. KOHS \$88,420 for Chemical Identifier and Monitor COMPLETED FY2020
7. CARES ACT Round 1, \$1,355,797 approved

OTHER DEVELOPMENT

Also, WCC-IDA is still focused on commercial, retail, and restaurant development. Our community continues to see results from our involvement with the Winchester Plaza redevelopment. About ten years ago, the city and county created a TIF district in the area around Winchester Plaza. (See *Tax Increment Financing*) These businesses continue to thrive. New development includes the construction of a Holiday Inn Express, which is now complete. The hotel is an \$8-\$10 million dollar investment with 75 rooms. Another retail business leased 39,000 square feet in January, 2017. In 2009, the plaza was 90% empty. It is now 90% full. The TIF district continues to perform well, providing jobs and occupational license tax revenue above the baseline established in 2009.

Ten years ago, a private company purchased the non-profit Clark Regional Medical Center and began construction of a new hospital. The new hospital is near Winchester Plaza. The City funded a much-needed traffic signal on U.S. 60 at this site. The City annexed this area and approved a joint revenue-sharing agreement with the Clark County Fiscal Court. The hospital also built a 4,600 square-foot medical office building. The hospital has built another three-story, 58,000 square-foot medical office building. This new development continues to draw other business and we anticipate more new business opportunities in that area. The City is very optimistic about new development surrounding the hospital.

The City finished the Depot Street Project nine years ago. The renovated street has greatly enhanced the area. The City applied for grant funds and a TEA-21 grant for the rehabilitation of the Sphar building in the downtown area (next to the Depot Street/Farmer's Market restoration) was approved. The TEA-21 grant was awarded for \$1 million and these monies have since been returned due to the project being rejected by the City Commission and the Sphar building torn down and the silos stabilized for the Clark County Farmers Market Façade. The \$250,000 received from the Greater Clark Foundation were retained for use and development of the Farmers Market project.

The Daniel Boone Pioneer Festival has been in existence for 41 years. The festival is held on Labor Day weekend and it is a huge success every year. The festival showcases our local talent, artists, and "Kentucky Proud" vendors.

The City continues efforts to strengthen the downtown area. The Main Street Winchester, along with the Downtown Business Association, is striving to improve the downtown area. Main Street Winchester is continuing its pro-active approach of development and continuing to guide the Master Plan process. The final plan was done late 2017. The City had its 11th Beer Cheese Festival on June 09, 2019, however, was unable to hold the festival FY2020 due to CoVid 19. This festival also highlights local talent, artists, and "Kentucky Proud" items. Winchester First also hosted free downtown concerts.

In the downtown area, some buildings have been bought, with interest, investment, and new business slowly taking place. Many of these buildings are historic and will be renovated according to historic preservation standards. Main Street Winchester board did approve many downtown renovation grants for facade and roof stabilization. Most of the downtown Main Street area is on the National Registry of Historic Places.

BONDS

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

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

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

OTHER INFORMATION

Retirements

The City recognized the following retirements during Fiscal Year 2020:

1. Richard White, Public Works, 16 years
2. Shannon Stone, Police Captain, 23 years
3. Rhonda Rogers, Communications Supervisor, 33 years
4. Harold Jones, Police Sergeant, 22 years
5. Gregory Harrison, Fire Fighter, 20 years

Elected Officials

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

Mayor Edallen York Burtner
Commissioner Jo Ellen Reed
Commissioner Shannon Cox
Commissioner Kitty Strode
Commissioner Ramsey Flynn

Respectfully submitted,

Michelle L. Lucas
Michelle L. Lucas
Interim Finance Director

INDEPENDENT AUDITOR'S REPORT

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

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

STUART K. McCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

SUSAN A. LACY, CPA
JUSTIN B. NICHOLS, CPA
EMILY N. JACKSON, CPA
ALEX R. LEE, CPA

LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners
City of Winchester, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's 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 governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and capital equipment fund 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 on pages 13-26, the single employer defined pension trust schedules and notes on page 88-89, and the cost-sharing defined pension trust and other postretirement employee benefit plan schedules and notes on pages 90-93 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 the City of Winchester, Kentucky's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of the City of Winchester, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Winchester, Kentucky's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC

Winchester, Kentucky

January 29, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

The management team of the City of Winchester presents this Management Discussion and Analysis to outline the financial highlights and provide their analysis of the financial reports by explaining changes in the financial data for the year ended June 30, 2020 (FY 2020). This narrative is intended to disclose any known significant events or decisions that affected the financial condition of the City during this period. In addition, supplementary information is presented in other sections of this report that we hope will help those reviewing this report understand the City's operations.

EXECUTIVE SUMMARY

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

Some of the key financial indicators for FY 2020 include the following:

- The City's net financial position continued to decline as the costs of postemployment benefits add about \$4 million each year to the City's costs of operations. Net financial position decreased by \$3.8 million as of June 30, 2020.
- The city financed a street sweeper in FY20 with a local bank loan of \$223,990.
- The fund statements present financial information that is similar to the budget planning reports. General Fund reported a total fund balance of \$6.2 million with \$61,991 committed to the self-insurance funds.
- Unassigned fund balance in the General Fund was \$6.1 million as of June 30, 2020, which represents 34.3% of General Fund expenditures and provides a reserve for future budget needs. This ratio improved over last year's ratio of 27.7%
- General Fund balance increased \$.8 million for FY 2020.
- The Capital Equipment fund uses a portion of the occupational license fee to finance capital improvements projects for the City. During FY 2020, this fund provided resources for \$512,227 of capital asset purchases and \$347,932 in debt retirement. Including the new lease of \$223,990, the City's outstanding long-term capital leases were reduced to \$1.5 million from \$1.7 million in FY 2020.

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

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

The City makes every effort to hire and retain qualified people who deliver quality services to our citizens. To ensure these services, employee wages and benefits are a vital component of the city's financial operations. Personnel costs include wages, taxes, retirement, and insurance. The

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

City granted a 3% cost-of-living (COLA) for FY2020. The City’s self-insured employee health insurance plan continued to help manage the city’s health care costs and keep those benefits on a sustainable level to protect both taxpayers and employees.

Employer contribution rates for retirement are mandated by the Board of Trustees for the CERS-County Employees Retirement System. These rates are what the City pays on employee wages to CERS which is administered by the Kentucky Retirement System. In 2019, the Kentucky General Assembly imposed a 12% cap on contribution rate increases for local government employers participating in CERS to allow a phase-in of the significant increases proposed by the 2017 Actuarial Study for CERS beginning in FY2019. In 2019, an experience study indicated that mortality assumptions should be revised which will likely increase rates further in FY2022. The 12% cap should still allow local employers to pay off these two changes over five – six years and stabilize the employer contribution rates as well as the unfunded liability. The table below shows the trend in employer contribution rates over the last five years:

	CERS RATES	
	<u>Non-Hazardous</u>	<u>Hazardous</u>
FY2021	24.06%	39.58%
FY2020	24.06%	39.58%
FY2019	21.48%	35.35%
FY2018	19.18%	31.55%
FY2017	18.68%	31.06%
FY2016	17.06%	32.95%

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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

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

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

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

FINANCIAL HIGHLIGHTS

Governmentwide Analysis

Statement of Net Assets

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

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

The following table summarizes the Statement of Net Position as of June 30, 2020 and 2019:

	Governmental 2020	Activities 2019
Current and Other assets	\$ 10,851,139	\$ 9,818,827
Capital assets	14,777,253	15,158,425
Total Assets	<u>25,628,392</u>	<u>24,977,252</u>
Deferred Outflows of Resources		
Pensions	6,750,559	8,007,024
OPEB	3,032,146	3,001,620
Total Deferred Outflows of Resources	<u>9,782,705</u>	<u>11,008,644</u>
Long-Term debt outstanding	1,543,398	1,667,331
Net pension liabilities	31,370,494	28,201,794
Net OPEB liabilities	7,852,536	7,899,059
Other liabilities	1,695,264	1,872,103
Total Liabilities	<u>42,461,692</u>	<u>39,640,287</u>
Deferred Inflows of Resources		
Pensions	1,369,297	1,567,218
OPEB	2,342,718	1,685,424
Total Deferred Inflows of Resources	<u>3,712,015</u>	<u>3,252,642</u>
Net Position		
Net investment in capital assets	13,233,855	13,491,094
Restricted	1,167,581	219,866
Unrestricted	(25,164,046)	(20,617,993)
Total Net Position	<u>\$ (10,762,610)</u>	<u>\$ (6,907,034)</u>

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Current and Other Assets increased approximately \$1.03 million. Capital assets decreased \$381,172. This decrease is the net effect of disposals of surplus equipment, depreciation, and additions including the new police cars, streetsweeper and projects shown below.

1. Recreational Trail Project (Completed in FY2020)
2. Lincoln Street Project
3. Demolition of the Sphar Building

The liability for the Winchester single-employer plan for the Policemen's and Firemen's Defined Benefit plan also increased because as the 2020 assumption changes are phased into the employer contributions. The amounts reported on the statement of net position include amounts for both the cost-sharing County Employees Retirement System plan and the city's single-employer Policemen's and Firemen's Pension Fund. The following table outlines the components of these balances as of June 30, 2020, by plan:

Pension Plans:	<u>CERS</u>	<u>P&F</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$ 6,722,357	\$ 28,202	\$ 6,750,559	\$2,179,136
Deferred Inflows	\$ 1,364,829	\$ 4,468	\$ 1,369,297	\$ 360,363
Net Pension Liability	\$ 29,959,822	\$ 1,410,672	\$31,370,494	\$9,050,051
Pension Expense	\$ 4,132,020	\$ 251,749	\$ 4,383,769	\$1,061,037
OPEB Plans:				
Deferred Outflows	\$ 3,032,146	\$ -	\$ 3,032,146	\$ 889,727
Deferred Inflows	\$ 2,342,718	\$ -	\$ 2,342,718	\$ 771,012
Net OPEB Liability	\$ 7,852,536	\$ -	\$ 7,852,536	\$2,163,768
OPEB Expense	\$ 580,244	\$ -	\$ 580,244	\$ 59,288

The City's unrestricted net position continues to reflect the impact of the city's proportionate share of net pension liabilities. The deficit position in net position reflects the city's responsibility to provide future resources to fund the pension liabilities. It is important to note that the pension and OPEB liabilities are currently being amortized over a closed 30-year period and this amortization is included in the annual actuarially determined contribution rates established by the Kentucky Retirement System Board of Trustees. As we noted earlier, the Ky General Assembly has approved a phase-in of contribution rates for local government employers that limits annual increases to 12% over the next 5 years to mitigate the short-term impact of the significant increases imposed for FY20. The City is not required to provide additional resources to retire this liability.

Statement of Activities

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

Another important feature of this report is the emphasis on *programs*. Line-items highlight the major components of the City's governmental operations and the columns present expenses, charges for services, grants, and general revenues.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

This format allows our readers to assess how the general resources are allocated to programs and the amounts that each program generates for their own services.

The following table summarizes the Statement of Activities for the City for 2020 and 2019, using the traditional operating format:

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,581,188	\$ 1,343,370
Grant funding	3,324,671	2,212,359
General revenues:		
Property taxes	2,619,572	2,523,413
License fees and permits	1,180,770	1,125,457
Payroll taxes	10,038,358	9,379,105
Insurance premium tax	2,606,820	2,551,579
Transient room tax	135,353	139,675
Other taxes	120,092	119,022
Interest and investment earnings	145,533	221,038
Parking fines	602	570
Other local revenues	179,183	108,198
Total Revenues	21,932,141	19,723,786
Program Expenses:		
General government	4,834,946	4,405,767
Public Protection		
Dispatch	1,259,337	1,308,666
Police	5,887,305	5,909,262
Fire	7,177,880	6,850,883
EMS	3,010,161	3,439,012
Public Services	2,210,994	1,942,143
Intergovernmental services	1,055,122	1,026,909
Interest on long-term debt	61,264	68,285
Total Expenses	25,497,009	24,950,927
Excess (deficiency) before transfers and special items	(3,564,868)	(5,227,141)
Gain on disposal of fixed assets	7,500	-
Net increase (decrease) in net position	\$ (3,557,368)	\$ (5,227,141)

Total Revenues increased \$2,208,355 providing for an improvement in the Cities net position, mostly due to payroll tax collections being up \$659,252 along with grant funding up \$1,087,026 FY2020 over FY2019.

Total expenses increased \$892,521, mostly because of CERS, medical and dental insurance and workers compensation insurance.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Analysis of Governmental Funds

The following table summarizes the Governmental Funds Balance Sheet for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and Cash Equivalents	\$ 7,633,921	\$ 7,505,260
Accounts Receivable	3,217,218	2,309,984
Due from Other Funds		134,092
Prepaid Expenses		3,584
Total Assets	<u>\$ 10,851,139</u>	<u>\$ 9,952,920</u>
Liabilities:		
Accounts Payable	\$ 30,318	\$ 96,288
Due to Other Funds	-	134,092
Accrued TIF Incentive Payable	92,911	123,149
Accrued Payroll & Related Liabilities	337,732	463,193
Total Liabilities	<u>460,961</u>	<u>816,722</u>
Deferred Inflows of Resources-Unavailable Property Taxes	21,043	22,964
Fund Balances:		
Restricted	1,167,581	1,238,465
Committed	3,052,750	2,802,150
Assigned	6,103	6,103
Unassigned	6,142,701	5,066,515
Total Fund Balances	<u>10,369,135</u>	<u>9,113,233</u>
Total Liabilities & Fund Balance	<u>\$ 10,851,139</u>	<u>\$ 9,952,920</u>

Cash and Cash Equivalents increased \$128,661 for operating expenses incurred in FY20.

Current Liabilities, excluding interfund amounts, decreased \$221,669.

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Restricted funds decreased \$70,884 mainly from the Main Street Fund. The largest contributor to the fund was cancelled due to the pandemic (Beer Cheese Festival).

Committed funds increased \$250,600 mainly from the Capital Equipment Fund. Capital Equipment Fund increased \$597,930 from excess property tax revenue over the current year capital expenditures. The committed balance for health insurance decreased \$220,128 because an increased in medical claims during the year. There were minimal changes in other nonmajor funds.

Assigned Funds remained the same with a balance of \$6,103 reflecting the amount set aside for the Splash Pad project.

Unassigned Fund Balance (General Fund) increased \$1,076,185 with an operating surplus of \$856,057 for FY20.

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

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances show revenues and expenses using the modified accrual basis of accounting. There are several significant differences, including depreciation expenses (\$1,666,139) instead of capital outlay (\$1,229,237) and principal payments (\$347,932), and accrued pension and OPEB expenses (\$4,807,486) instead of cash contributions (\$2,966,490). The FY20 change in governmental fund balance was an increase of \$1,255,899 while the decrease in governmentwide net position for governmental activities was \$3,855,577.

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
REVENUES:		
Taxes	\$ 15,522,115	\$ 14,706,041
Licenses & Permits	1,180,770	1,125,457
Charges for Services	1,581,187	1,343,371
Fines	615	570
Intergovernmental	3,299,384	2,212,361
Investment Income	145,530	221,038
Other	204,469	108,197
TOTAL REVENUES	<u>21,934,070</u>	<u>19,717,035</u>
General Government	3,792,463	3,355,341
Public Safety:		
Dispatch	1,099,629	1,092,529
Police	4,177,007	4,556,823
Fire	5,148,522	4,960,204
EMS	2,158,149	2,635,566
Public Works	1,858,123	1,654,353
Intergovernmental	1,029,835	1,136,911
Capital	1,229,237	525,768
Debt service principal	347,932	354,170
Debt service interest	61,264	68,285
TOTAL EXPENDITURES	<u>20,902,161</u>	<u>20,339,950</u>
Excess (Deficit) of Revenues over Expenditures	<u>1,031,909</u>	<u>(622,915)</u>
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term borrowing	223,990	119,800
Gain/loss on sale of capital assets		
Operating transfers in	213,523	
Operating transfers out	(213,523)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>223,990</u>	<u>119,800</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	1,255,899	(503,115)
Fund Balance, beginning	9,113,235	9,616,350
Fund Balance, ending	<u>\$ 10,369,134</u>	<u>\$ 9,113,235</u>

The difference between revenues and expenditures shows how total fund balance has changed since last year. Total governmental fund balances increased \$1,255,899. General Fund increased because of an operating surplus of \$856,057. Capital Equipment increased \$597,930 as property taxes exceeded capital expenditures in the FY20, the nonmajor funds ended the fiscal year with a deficit of \$198,088.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Payroll taxes contributed to the available resources with an increase of \$267,048 in FY20 and charges for services increased \$113,317 mainly from continued employee growth and from EMS revenue. Intergovernmental revenues increased \$1,087,023 as the City had more federal and state grant activity in FY20.

Expenditures increased \$562,211 across all governmental funds, mainly because of more capital expenditures in FY20.

Capital and Operating Activities

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

	FY 2020 Governmental Funds		
	Capital	Operating	Total
Revenues	\$ 1,391,830	\$ 20,542,240	\$ 21,934,070
Expended	(1,229,237)	(19,672,924)	(20,902,161)
Net	<u>\$ 162,593</u>	<u>\$ 869,316</u>	<u>\$ 1,031,909</u>
	FY 2019 Governmental Funds		
	Capital	Operating	Total
Revenues	\$ 1,441,021	\$ 18,276,014	\$ 19,717,035
Expended	(879,938)	(19,460,011)	(20,339,949)
Net	<u>\$ 561,083</u>	<u>\$ (1,183,997)</u>	<u>\$ (622,914)</u>

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance) and capital grants from federal, state, and county grant awards. The revenues in the capital decreased due to less federal and state grant funds in FY20.

BUDGETARY HIGHLIGHTS

This section explains significant changes between the original and final adopted general fund budget. The Schedule of Revenues, Expenditures, Changes in Fund Balance Budget-To-Actual financial reports begin on Page 33 with reports for the General Fund and Capital Equipment Fund, a major special revenue fund.

Actual General Fund revenue fell short of budget estimates by about \$3.1 million. Taxes estimates fell short of budget by \$45,863.

These budget amounts reflected were very conservative because projecting revenues are difficult due to several factors (economy, jobs, weather, etc.). Charges for services fell short of budget by about \$389,000.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Most of the General Fund under-budget revenue difference (under budget by \$3,073,366) can be attributed to:

1. Intergovernmental under budget by \$2,716,951
2. Payroll Tax under budget \$110,821
3. Columbia Gas Franchise under budget \$4,216
4. Kentucky Utility Franchise under budget \$40,276
5. Reimbursable Grant Income under budget \$500,000

Public Works expenses came in under budget because the Sphar Building project was closed and the building demolished. At year end, reimbursable grants revenue and expenses are transferred to federal, state, and local grant financial statements.

Most departments came in under budget. A large portion of this is attributed to personnel numbers. The Communications, Police, Fire, and EMS did not have all of their positions filled for the entire year. The General Fund budget projections are based on all positions being filled for the entirety of the year.

In the Capital Equipment Fund, Intergovernmental Income came in under budget by about \$54,000.

Capital Equipment Fund expenses were under budget by \$741,100.

1. Special Projects was under budget. The Splash Pad was budgeted for \$250,000 with no expenditure of funds.
2. The Stormwater projects were budgeted for \$68,539, with projects not proceeding as expected.

The budget amendments added the following:

1. Added \$122,000 to General Fund Commission Department for Economic Dev. Mccann Drive.
2. Added \$90,300 to General Fund for Salaries & Wages and Medical & Dental Insurance.
3. Added \$30,000 to General Fund Dispatch Department for Medical & Dental Insurance.
4. Added \$194,000 to General Fund Police Department for Salaries & Wages and Medical & Dental Insurance, professional fees and uniforms.
5. Added \$207,000 to General Fund Fire Department for Salaries & Wages and Medical & Dental Insurance, vehicle maintenance, fuel and supplies.
6. Added \$213,500 to General Fund EMS Department for Salaries & Wages and Medical & Dental Insurance, professional fees, EMS supplies, hardware/software and rents/storage.
7. Added \$15,000 to General Fund Public Works Department for Medical & Dental Insurance
8. Added \$12,750 to General Fund Transfers.
9. Added \$195,500 to Capital Equipment Fund for heavy equipment, grant equipment, building improvements, appliances and note/interest.
10. Added \$60,000 to the Municipal Aid Fund for paving.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

LONG-TERM DEBT

The City finances a variety of equipment purchases with capital lease financing. During FY 2020, one lease for \$223,990 was issued to finance a street sweeper. The city retired principal of \$347,932 of the outstanding leases issued in prior years during FY20. More information about long-term debt is explained in Note 8 of the Notes to the Financial Statements.

MAJOR CAPITAL PROJECTS FOR THE YEAR

Capital assets provide an important resource for supporting a variety of governmental programs and services. The City uses local tax revenues as well as federal and state grant funding to help finance critical infrastructure and public property improvements. The following table summarizes the City's governmental capital assets (net of accumulated depreciation) as of June 30, 2020 and 2019.

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Construction in progress	\$ 1,309,507	\$ 671,241
Land	2,152,683	2,152,683
Buildings	2,656,738	2,569,044
Vehicles	2,033,281	2,044,241
Furniture & fixtures	9,084	13,011
Equipment	887,938	1,299,306
Infrastructure	5,728,022	6,408,899
Total Capital Assets, Net	<u>\$ 14,777,253</u>	<u>\$ 15,158,425</u>

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

1. Fulton Road
2. Seventh Street
3. Community Splash Pad (project currently on hold)
4. Lincoln Street a CDBG Urban Renewal Project

ECONOMIC CONDITION AND OUTLOOK

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

Economic development continues to hold steady and shows signs of improvement. The city began the fiscal year with a 3.9% unemployment rate and ended the fiscal year with a 3.9% unemployment rate.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

The local economy has improved and continues to grow. We have had great success with existing industry, new industry, and new businesses. We have had numerous inquiries from potential businesses. New companies, new investment, and new jobs have all contributed to economic stability.

The City, like most Kentucky communities, is highly dependent on occupational license fees, insurance premiums taxes, and property taxes for funding governmental services. The unemployment rate slightly decreased. People working, maintains the City's tax base.

The City did not approve the maximum allowable real property tax rate for calendar year 2019. The rates were the same as the previous year. The FY2020 budget was based on the maximum allowable rate, so this revenue was under budget expectations.

Our taxes and fees are variable dependent upon the economy, however we must maintain vital services that our citizens depend upon. It is our mission and duty to provide the same level of service to our citizens as they have come to expect regardless of the economic conditions.

Personnel costs consume about 75% of the General Fund budget. These costs will continue to rise for two main reasons: (1) post-retirement benefit costs; and (2) health insurance costs.

During our FY2020 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2020, a 3% COLA was granted to employees. This was very important in our effort to retain qualified employees essential to public safety and administration.

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020**

CONTACTING THE CITY'S FINANCIAL TEAM

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

Michelle L. Lucas
Interim Finance Director
32 Wall Street, P.O. Box 4135
Winchester, KY 40392-4135
859-355-1064
mlucas@winchester.com

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

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

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

Kenneth Dryden
General Manager
Winchester Municipal Utilities
150 North Main Street, P.O. Box 4177
Winchester, KY 40392-4177

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

Todd Denham
W/CC Industrial Development Authority
2 South Maple Street
Winchester, KY 40391
859-744-5627

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF WINCHESTER
STATEMENT OF NET POSITION
JUNE 30, 2020**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS:			
Current Assets			
Cash and Cash Equivalents	\$ 7,633,921	\$ 7,633,921	\$ 7,907,721
Restricted Cash and Cash Equivalents	-	-	727,989
Accounts Receivable			
Taxes	2,292,785	2,292,785	-
Accounts, net	580,927	580,927	2,156,579
Intergovernmental	343,506	343,506	-
Other	-	-	134,719
SDC Receivables	-	-	326,809
Accrued Interest	-	-	15,233
Prepaid Expenses	-	-	566,783
Inventories	-	-	448,845
Total Current Assets	10,851,139	10,851,139	12,284,678
Restricted Assets			
Cash and Cash Equivalents	-	-	9,988,578
Total Restricted Assets	-	-	9,988,578
Noncurrent Assets			
Construction in Progress	1,309,507	1,309,507	22,870,326
Land	2,152,683	2,152,683	1,519,050
Net Capital Assets	11,315,063	11,315,063	103,451,896
Total Noncurrent Assets	14,777,253	14,777,253	127,841,272
TOTAL ASSETS	\$ 25,628,392	\$ 25,628,392	\$ 150,114,528
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	\$ 6,750,559	\$ 6,750,559	\$ 2,179,136
OPEB	3,032,146	3,032,146	889,727
Total Deferred Outflows of Resources	\$ 9,782,705	\$ 9,782,705	\$ 3,068,863
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 30,318	\$ 30,318	\$ 1,351,605
Accrued TIF Incentive Payable	92,911	92,911	-
Accrued Payroll & Related Liabilities	337,732	337,732	148,175
Customer Deposits	-	-	117,248
Accrued Interest Payable	-	-	77,266
Incurred but Not Reported Health Claims	359,669	359,669	-
Current Portion of Accrued Sick Leave	80,769	80,769	70,583
Current Portion of Bonds	-	-	3,806,166
Current portion of Lease Obligations	358,970	358,970	-
Total Current Liabilities	1,260,369	1,260,369	5,571,043
Noncurrent Liabilities			
Noncurrent Portion of Lease Obligations	1,184,428	1,184,428	-
Noncurrent Portion of Bonds	-	-	65,011,545
Noncurrent Portion of Accrued Sick Leave	793,865	793,865	419,763
Net Pension Liability	31,370,494	31,370,494	9,050,051
Net OPEB Liability	7,852,536	7,852,536	2,163,768
Total Noncurrent Liabilities	41,201,323	41,201,323	76,645,127
TOTAL LIABILITIES	\$ 42,461,692	\$ 42,461,692	\$ 82,216,170
DEFERRED INFLOWS OF RESOURCES			
Pensions	\$ 1,369,297	\$ 1,369,297	\$ 360,363
OPEB	2,342,718	2,342,718	771,012
Total Deferred Inflows of Resources	\$ 3,712,015	\$ 3,712,015	\$ 1,131,375
NET POSITION			
Net Investment in Capital Assets	\$ 13,233,855	\$ 13,233,855	\$ 59,023,561
Restricted			
Restricted for Capital Projects	1,167,581	1,167,581	8,415,066
Restricted for Bond Debt Service	-	-	2,169,706
Unrestricted	(25,164,046)	(25,164,046)	227,513
TOTAL NET POSITION	\$ (10,762,610)	\$ (10,762,610)	\$ 69,835,846

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (4,853,617)	\$ 234,911	\$ 39,755	\$ -	\$ (4,578,951)	\$ (4,578,951)	
Public Safety:							
Dispatch	(1,259,054)	-	492,496	-	(766,558)	(766,558)	
Police	(5,924,237)	3,947	265,403	-	(5,654,887)	(5,654,887)	
Fire	(7,320,343)	-	409,361	30,000	(6,880,982)	(6,880,982)	
EMS	(3,070,580)	1,336,368	657,467	-	(1,076,745)	(1,076,745)	
Public Works	(2,210,732)	5,962	-	1,404,903	(799,867)	(799,867)	
Intergovernmental Services	(1,143,622)	-	-	-	(1,143,622)	(1,143,622)	
Interest on Long-Term Debt	(61,264)	-	-	-	(61,264)	(61,264)	
Total Governmental Activities	<u>(25,843,448)</u>	<u>1,581,188</u>	<u>1,864,482</u>	<u>1,434,903</u>	<u>(20,962,875)</u>	<u>(20,962,875)</u>	
 Total Primary Government	 \$ <u>(25,843,448)</u>	 \$ <u>1,581,188</u>	 \$ <u>1,864,482</u>	 \$ <u>1,434,903</u>	 \$ <u>(20,962,875)</u>	 \$ <u>(20,962,875)</u>	
 Component Unit							
Winchester Municipal Utilities	\$ (17,460,153)	\$ 17,675,933	\$ -	\$ -			\$ 215,780
			General Revenues:				
			Taxes:				
			Property	\$ 3,813,696	\$ 3,813,696	\$ -	-
			Payroll	8,844,233	8,844,233	-	-
			Insurance Premium	2,606,820	2,606,820	-	-
			Hotel/Motel Room Tax	135,353	135,353	-	-
			Telecommunications Excise Tax	120,092	120,092	-	-
			Licenses, Franchise & Permits	1,180,770	1,180,770	-	-
			Investment Income	145,533	145,533		213,493
			Parking Fines	615	615		-
			Gain (Loss) on disposal of fixed assets	55,730	55,730		34,361
			Other Local Revenues	204,456	204,456		133,594
			Total General Revenues	\$ 17,107,298	\$ 17,107,298	\$	381,448
			Capital Contributions	-	-		762,523
			Change in Net Position	(3,855,577)	(3,855,577)		1,359,751
			Net Position June 30, 2019	(6,907,033)	(6,907,033)		68,476,095
			Net Position June 30, 2020	\$ <u>(10,762,610)</u>	\$ <u>(10,762,610)</u>	\$	<u>69,835,846</u>

The accompanying notes are an integral part of this statement

FUND FINANCIAL STATEMENTS

**CITY OF WINCHESTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	GENERAL FUND	CAPITAL EQUIPMENT FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and Cash Equivalents	\$ 3,494,362	\$ 2,612,150	\$ 1,527,409	\$ 7,633,921
Accounts Receivable				
Taxes (net of allowance for doubtful accounts \$49,743)	2,292,785	-	-	2,292,785
Accounts, Net of allowance for doubtful accounts (\$575,646)	580,927	-	-	580,927
Intergovernmental	312,561	14,037	16,908	343,506
Prepaid Postage	-	-	-	-
Due from Other Funds	-	-	-	-
TOTAL ASSETS	\$ 6,680,635	\$ 2,626,187	\$ 1,544,317	\$ 10,851,139
LIABILITIES:				
Accounts Payable	\$ 18,154	\$ -	\$ 12,164	\$ 30,318
Due to Other Funds	-	-	-	-
Accrued TIF Incentive Payable	92,911	-	-	92,911
Accrued Payroll & Related Liabilities	337,732	-	-	337,732
TOTAL LIABILITIES	448,797	-	12,164	460,961
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Property Taxes	21,043	-	-	21,043
FUND BALANCES:				
Restricted Fund Balance	-	-	1,167,581	1,167,581
Committed Fund Balance	61,991	2,626,187	364,572	3,052,750
Assigned Fund Balance	6,103	-	-	6,103
Unassigned Fund Balance	6,142,701	-	-	6,142,701
TOTAL FUND BALANCES	6,210,795	2,626,187	1,532,153	10,369,135
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 6,680,635	\$ 2,626,187	\$ 1,544,317	\$ 10,851,139

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Governmental Fund Balances	\$ 10,369,135
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of Net Position	14,777,253
Deferred Inflows related to unavailable revenues are reported in the fund financial statements because they will be recognized in future periods but reported as revenue in the government-wide statements	21,043
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods	(1,369,297)
Deferred Inflows related to OPEB are not reported in the fund financial statements because they will be recognized in future periods	(2,342,718)
Deferred Outflows related to pension are not reported in the fund financial statements because they do not represent current financial resources	6,750,559
Deferred Outflows related to OPEB are not reported in the fund financial statements because they do not represent current financial resources	3,032,146
Certain liabilities are not reported in the fund statements because they are not due and payable, but these liabilities are included in the statement of net position	
Long-term debt	(1,543,398)
Incurred but Not Reported Health Claims	(359,669)
Compensated Absences Liability	(874,634)
Net Pension Liability--Cost-sharing CERS Plan	(29,959,822)
Net OPEB Liability--Cost-sharing CERS Plan	(7,852,536)
Net Pension Liability--Single-employer Police & Firefighters Plan	(1,410,672)
Net Position of Governmental Activities	<u>\$ (10,762,610)</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>GENERAL</u>	<u>CAPITAL EQUIPMENT</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:				
Taxes	\$ 14,192,637	\$ 1,194,125	\$ 135,353	\$ 15,522,115
Licenses, Franchises & Permits	1,180,770	-	-	1,180,770
Charges for Services	1,581,187	-	-	1,581,187
Fines	615	-	-	615
Intergovernmental	1,569,121	156,879	1,573,384	3,299,384
Investment Income	71,947	40,826	32,757	145,530
Other	75,630	-	128,840	204,470
TOTAL REVENUES	<u>18,671,907</u>	<u>1,391,830</u>	<u>1,870,334</u>	<u>21,934,071</u>
EXPENDITURES:				
City Commission	1,010,951	8,996	-	1,019,947
City Attorney	64,777	-	-	64,777
City Manager	545,717	-	-	545,717
Finance Department	465,288	2,742	-	468,030
Planning Department	710,797	-	599	711,396
Main Street Department	79,891	-	190,110	270,001
Administration	712,595	-	-	712,595
Central Communications	1,098,180	1,449	-	1,099,629
Police Department	4,103,330	10,028	63,649	4,177,007
Fire Department	5,013,803	3,730	130,989	5,148,522
EMS Division	2,158,149	-	-	2,158,149
Public Works	1,420,790	-	437,333	1,858,123
Intergovernmental	503,889	-	525,946	1,029,835
Capital	36,699	512,227	680,311	1,229,237
Debt service principal	-	347,932	-	347,932
Debt service interest	-	61,264	-	61,264
TOTAL EXPENDITURES	<u>17,924,856</u>	<u>948,368</u>	<u>2,028,937</u>	<u>20,902,161</u>
Excess (Deficit) of Revenues over Expenditures	<u>747,051</u>	<u>443,462</u>	<u>(158,603)</u>	<u>1,031,910</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term borrowing	-	223,990	-	223,990
Gain/loss on sale of capital assets	-	-	-	-
Operating transfers in	136,265	63,156	14,102	213,523
Operating transfers out	(27,258)	(132,678)	(53,587)	(213,523)
TOTAL OTHER FINANCING SOURCES (USES)	<u>109,007</u>	<u>154,468</u>	<u>(39,485)</u>	<u>223,990</u>
Net Change in Fund Balance	856,058	597,930	(198,088)	1,255,900
Fund Balance June 30, 2019	<u>5,354,737</u>	<u>2,028,257</u>	<u>1,730,241</u>	<u>9,113,235</u>
Fund Balance June 30, 2020	<u>\$ 6,210,795</u>	<u>\$ 2,626,187</u>	<u>\$ 1,532,153</u>	<u>\$ 10,369,135</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,255,899
Amounts reported for governmental activities in the statement of activities are different because:	
Unavailable taxes are not recognized in the fund statements because they are not current financial resources, but they are recognized in the statement of activities	(1,921)
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives.	1,229,237
Gain on disposal of capital assets	55,730
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services	(1,666,139)
Proceeds of lease proceeds are reported as sources of funds in the fund statements and increases in long-term debt in the governmentwide statements	(223,990)
Pension liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Single-employer Police & Fire Fund	(95,222)
Cost-sharing County Employees Retirement System	(4,132,021)
OPEB liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Cost-sharing County Employees Retirement System	(580,243)
Health insurance claims that have been incurred, but not reported as of June 30, are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	59,194
Compensated absences are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	(104,033)
Bond and lease payments are recognized as expenditures of current financial resources in the fund financial statement, but are reductions of liabilities in the statement of net position.	347,932
Change in Net Position of Governmental Activities	<u>\$ (3,855,577)</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 14,238,500	\$ 14,238,500	\$ 14,192,637	\$ (45,863)
Licenses, Franchise & Permits	1,154,000	1,154,000	1,180,770	26,770
Charges for Services	1,969,700	1,969,700	1,581,187	(388,513)
Fines	1,000	1,000	615	(385)
Intergovernmental	4,080,500	4,286,072	1,569,121	(2,716,951)
Investment Income	96,000	96,000	71,947	(24,053)
Other	-	-	75,629	75,629
TOTAL REVENUES	<u>21,539,700</u>	<u>21,745,272</u>	<u>18,671,906</u>	<u>(3,073,366)</u>
EXPENDITURES:				
General Government	3,023,282	3,221,182	3,590,016	(368,834)
Central Communications	1,437,400	1,505,328	1,098,180	407,148
Police Department	4,647,500	4,847,747	4,103,330	744,417
Fire Department	5,239,050	5,443,469	5,013,803	429,666
EMS Division	3,044,500	3,603,780	2,158,149	1,445,631
Public Works	1,249,150	1,301,096	1,420,790	(119,694)
Intergovernmental	1,792,500	1,792,500	503,889	1,288,611
Capital	-	-	36,699	(36,699)
Debt service principal	-	-	-	-
Debt service interest	-	-	-	-
TOTAL EXPENDITURES	<u>20,433,382</u>	<u>21,715,102</u>	<u>17,924,856</u>	<u>3,790,246</u>
Excess (Deficit) of Revenues over Expenditures	<u>1,106,318</u>	<u>30,170</u>	<u>747,050</u>	<u>716,880</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	-	-	-	-
Gain or loss on sale of capital assets	-	-	-	-
Operating transfers in	-	-	136,265	(136,265)
Operating transfers out	(962,400)	(962,400)	(27,258)	(935,142)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(962,400)</u>	<u>(962,400)</u>	<u>109,007</u>	<u>(1,071,407)</u>
Net Change in Fund Balance	143,918	(932,230)	856,057	(354,527)
Fund Balance June 30, 2019	<u>4,625,798</u>	<u>4,625,798</u>	<u>5,354,737</u>	<u>728,939</u>
Fund Balance June 30, 2020	<u>\$ 4,769,716</u>	<u>\$ 3,693,568</u>	<u>\$ 6,210,794</u>	<u>\$ 374,412</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	SPECIAL REVENUE FUND			VARIANCE
	(CAPITAL EQUIPMENT FUND)			
	BUDGETED AMOUNTS		ACTUAL	
ORIGINAL	FINAL	(Unfavorable)		
REVENUES:				
Taxes	\$ 1,150,000	\$ 1,150,000	\$ 1,194,125	\$ 44,125
Licenses & Permits	-	-	-	-
Charges for Services	-	-	-	-
Fines	-	-	-	-
Intergovernmental	211,000	211,000	156,879	(54,121)
Investment Income	45,000	45,000	40,826	(4,174)
Other	-	-	-	-
TOTAL REVENUES	<u>1,406,000</u>	<u>1,406,000</u>	<u>1,391,830</u>	<u>(14,170)</u>
EXPENDITURES:				
General Government	-	-	11,738	(11,738)
Central Communications	-	-	1,449	(1,449)
Police Department	-	-	10,028	(10,028)
Fire Department	-	-	3,730	(3,730)
EMS Division	-	-	-	-
Public Works	-	-	-	-
Capital	941,433	976,368	512,227	464,141
Debt service principal	401,100	401,100	347,932	53,168
Debt service interest	312,000	312,000	61,264	250,736
TOTAL EXPENDITURES	<u>1,654,533</u>	<u>1,689,468</u>	<u>948,368</u>	<u>741,100</u>
Excess (Deficit) of Revenues over Expenditures	<u>(248,533)</u>	<u>(283,468)</u>	<u>443,462</u>	<u>726,930</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	250,000	250,000	223,990	(26,010)
Gain/loss on sale of capital assets	-	-	-	-
Operating transfers in	-	-	63,156	63,156
Operating transfers out	-	-	(132,678)	(132,678)
TOTAL OTHER FINANCING SOURCES (USES):	<u>250,000</u>	<u>250,000</u>	<u>154,468</u>	<u>(95,532)</u>
Net Change in Fund Balance	1,467	(33,468)	597,930	631,398
Fund Balance June 30, 2019	<u>3,521,077</u>	<u>1,817,228</u>	<u>2,028,257</u>	<u>211,029</u>
Fund Balance June 30, 2020	<u>\$ 3,522,544</u>	<u>\$ 1,783,760</u>	<u>\$ 2,626,187</u>	<u>\$ 842,427</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND (COMPONENT UNIT)
JUNE 30, 2020**

	ENTERPRISE FUND
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 7,907,721
Restricted Cash and Cash Equivalents	727,989
Accrued Interest, Restricted	15,233
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$52,090	2,156,579
SDC Assessments Receivable	326,809
Other Accounts Receivable	134,719
Materials and Supplies	448,845
Prepaid Expenses	566,783
Total Current Assets	12,284,678
Restricted Assets	
Cash and Cash Equivalents	9,988,578
Total Restricted Assets	9,988,578
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	103,451,896
Land	1,519,050
Construction in Progress	22,870,326
Total Property, Plant and Equipment	127,841,272
TOTAL ASSETS	\$ 150,114,528
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	\$ 2,179,136
OPEB	889,727
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 3,068,863
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 1,351,605
Other Accrued Liabilities	148,175
Customer Deposits	117,248
Accrued Interest Payable	77,266
Current Portion of Long-Term Debt	3,806,166
Total Current Liabilities	5,500,460
NONCURRENT LIABILITIES	
Compensated Absences	490,346
Noncurrent Portion of Long-Term Debt	65,011,545
Net Pension Liability	9,050,051
Net OPEB Liability	2,163,768
Total Noncurrent Liabilities	76,715,710
TOTAL LIABILITIES	\$ 82,216,170
DEFERRED INFLOWS OF RESOURCES	
Pensions	\$ 360,363
OPEB	771,012
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 1,131,375
NET POSITION:	
Net Investment in Capital Assets	\$ 59,023,561
Restricted for Capital Projects (Expendable)	8,415,066
Restricted for Bond Debt Service (Expendable)	2,169,706
Unrestricted	227,513
TOTAL NET POSITION	\$ 69,835,846

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND (COMPONENT UNIT)
FOR THE YEAR ENDED JUNE 30, 2020**

	ENTERPRISE FUND
OPERATING REVENUES:	
Water	\$ 5,499,890
Wastewater	8,391,292
Solid Waste	3,729,340
Transfer Station	55,411
TOTAL OPERATING REVENUES	17,675,933
OPERATING EXPENSES:	
Administrative	2,704,617
Solid Waste	2,206,240
Water	3,876,623
Wastewater	6,990,903
Vehicle Maintenance	146,743
TOTAL OPERATING EXPENSES	15,925,126
Operating Income (Loss)	1,750,807
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	213,493
Interest Expense	(1,455,794)
Other Income	133,594
Gain on Sale of Capital Assets	34,361
Amortization Expense of Bond Discount	(79,233)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,153,579)
Net Income (Loss) before Capital Grants & Contributions	597,228
Capital Contributions	762,523
Change in Net Position	1,359,751
Net Position, Beginning of Year	68,476,095
Net Position, End of Year	\$ 69,835,846

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (COMPONENT UNIT)
FOR THE YEAR ENDED JUNE 30, 2020**

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 17,550,920
Payments to Suppliers	(4,689,937)
Payments to Employees	(5,494,619)
Other Receipts (Payments)	(95,285)
Net Cash Provided (Used) by Operating Activities	7,271,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	34,361
Proceeds from Long-Term Debt	5,557,703
Bond Issue Costs	(47,703)
Principal Payments	(9,399,382)
Interest Payments	(1,461,024)
Purchase of Property, Plant and Equipment	(15,023,465)
Contributed Capital Received	762,523
Cash from Other Income	133,594
Net Cash Provided (Used) by Capital and Related Financing Activities	(19,443,393)
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash from Interest	212,130
Net Cash Provided (Used) by Investing Activities	212,130
Net Increase (Decrease) in Cash and Cash Equivalents	(11,960,184)
Cash and Cash Equivalents, Beginning of Year	30,584,472
Cash and Cash Equivalents, End of Year	\$ 18,624,288
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and Cash Equivalents - Unrestricted	7,907,721
Cash and Cash Equivalents - Restricted	727,989
Investments - Restricted	9,988,578
Cash and Cash Equivalents, End of Year	\$ 18,624,288
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 1,750,807
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities:	
Depreciation/Amortization	4,970,930
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Accounts Receivable, Customers	(248,786)
SDC Assessments Receivable	132,588
Other Accounts Receivable	(95,285)
Material and Supplies	(22,906)
Prepaid Expenses	(13,794)
Deferred Outflows of Resources	(498,910)
Accounts Payable	(224,254)
Accrued Liabilities	(90,343)
Net Pension Liability	1,501,727
Net OPEB Liability	(36,673)
Compensated Absences	5,841
Accrued Interest Payable	(5,230)
Deferred Inflows of Resources	154,181
Customer Deposits	(8,816)
Net Cash Provided by Operating Activities	\$ 7,271,079
Supplemental Information, Noncash Transactions	
Donated Capital assets	\$ 527,532
Depreciation and Amortization Expense	\$ 5,050,163

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2020**

	PENSION TRUST	AGENCY FUND
ASSETS		
Cash and Cash Equivalents	\$ 138,017	\$ 58,226
Investments	932,366	-
Accrued Investment Income	3,798	-
TOTAL ASSETS	\$ 1,074,181	\$ 58,226
LIABILITIES		
Accounts Payable	\$ 1,126	-
Due to Member Agencies	-	58,226
TOTAL LIABILITIES	\$ 1,126	\$ 58,226
FIDUCIARY NET POSITION	\$ 1,073,055	

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>PENSION TRUST</u>
ADDITIONS:	
Contributions	\$ 156,566
Investment Income:	
Interest	18,253
Net Appreciation (Depreciation) in Fair Value of Investments	18,205
Gain (Loss) on Sale of Investments	-
Less: Investment Expense	<u>(4,303)</u>
Net Investment Income	<u>32,155</u>
Total Additions	188,721
DEDUCTIONS:	
Benefits	118,755
HRA Benefits	13,005
Taxes	<u>1,742</u>
Total Deductions	133,502
Change in Net Position	55,219
Net Position June 30, 2019	<u>1,017,836</u>
Net Position June 30, 2020	<u><u>\$ 1,073,055</u></u>

The accompanying notes are an integral part of this statement

NOTES TO THE FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

THE FINANCIAL REPORTING ENTITY

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. EXCLUDED FROM THE ENTITY:

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

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

Component Unit – WMU

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

BASIS OF PRESENTATION

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund Accounting

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

A. Governmental Fund Types

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

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

B. Proprietary Funds (Enterprise Fund)

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Measurement Focus and Basis of Accounting

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

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

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

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

BASIS OF ACCOUNTING

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

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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

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

BUDGETARY PROCESS

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

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

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

CASH, CASH EQUIVALENTS AND INVESTMENTS

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

ACCOUNTS RECEIVABLE—COMPONENT UNIT (WMU)

Accounts receivable - Customers, are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. An adjustment to an allowance for doubtful accounts is based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2020, \$80,769 were written off as uncollectible.

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

INVENTORIES AND PREPAIDS

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS—COMPONENT UNIT (WMU)

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

CAPITAL ASSETS

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

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

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

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

CAPITAL ASSETS—COMPONENT UNIT (WMU)

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

COMPENSATED ABSENCES

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

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

BOND AMORTIZATION COSTS—COMPONENT UNIT (WMU)

Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense for bond discount as of June 30, 2020, was \$79,223.

INTEREST-COMPONENT UNIT (WMU)

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

LONG-TERM DEBT

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSIONS

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

PENSIONS—WMU

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Beginning in fiscal year 2019, the City implemented GASB Statement No. 75, which requires recognition of the employer's (the City) obligation for the net long-term OPEB liabilities, deferred inflows of resources, deferred outflows of resources, and OPEB expense associated with both the cost-sharing and single-employer plans offered to City employees. The City reports its proportionate share of the collective balances for the cost-sharing plan and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 20—Other Postemployment Benefit Plans. Note 22 outlines the amounts that were recorded to adjust prior year balances for the implementation of GASBS No. 75. CERS OPEB plans are included in the KRS CAFR published on their website at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)—WMU

WMU also implemented GASB Statement No. 75 for the fiscal year ended June 30, 2019. WMU reports its proportionate share of the collective net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. This plan is the same plan used by the City. More information on pensions is available in Note 20—Other Postemployment Benefit Plans. Note 22 outlines the amounts that were recorded to adjust prior year balances for the implementation of GASBS No. 75.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERFUND TRANSFERS

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

NET POSITION

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

Net position is displayed in three components:

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

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

- a) Nonspendable fund balance - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- b) Restricted fund balance - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. \$1,167,581 was restricted in MAPS,LGEA, federal and state funds at June 30, 2020.
- c) Committed fund balance – amounts constrained to specific purposes by the City itself, using its decision-making authority to be reported as committed, amounts cannot be used for any other purpose unless the city Commission votes to remove or change the constraint. A Commission resolution is required to commit funds. At June 30, 2020, \$61,991 was committed for the self-insurance program in the General fund. \$2,626,187 was committed for capital projects in the Capital Equipment fund and \$364,572 was committed in nonmajor projects funds for various projects.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- d) Assigned fund balance - amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Manager has the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund May also include amounts that have been appropriated for expenditures in the budget for the City's subsequent fiscal year. At June 30, 2020, \$6,103 was assigned to the Splash Pad project. No assigned amounts were set aside for the FY2021 budget because a surplus was budgeted for the next year.
- e) Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Net Position—Component Unit (WMU)

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

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

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

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for FY2019 were levied on the assessed property located in the City of Winchester as of the preceding January 1. The assessments are determined by the Clark County Property Valuation Administrator in accordance with Kentucky Revised Statutes. Taxes were levied on October 31, 2019 and were due December 6, 2019. Taxes unpaid after December 6, 2019 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Therefore, \$21,043 is reported as deferred inflows of resources in the governmental funds at June 30, 2020, since these amounts are estimated to be collected after August 30, 2019. Based on collection histories, the City has provided at June 30, 2020, an allowance for uncollectible property taxes of (\$49,743) has been recorded. The net receivable (\$2,292,785) is reported in both the governmentwide and governmental fund financial statements.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)

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

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

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

TAP FEES—COMPONENT UNIT (WMU)

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

SYSTEM DEVELOPMENT CHARGES—COMPONENT UNIT (WMU)

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

JOINT VENTURE

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

Clark County Geographic Information System Consortium (CCGIS) is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. The city contributed \$87,000 for the year ended June 30, 2020. WMU contributed \$90,369 for the year ended June 30, 2020. There were no receivable/payables between the City, WMU, and CCGIS as of June 30, 2020. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, will be effective for reporting periods beginning after December 15, 2020 (the 2021 fiscal year for the City and WMU). This standard establishes criteria for identifying fiduciary activities based on the government's control of the assets and the beneficiaries included in the fiduciary relationship. In addition, the standard will rename "agency" funds to "custodial" funds. This standard will have no financial impact on the City or WMU, but will require the City to revise reporting for its agency funds and add a statement of changes in custodial funds to the fiduciary fund statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was implemented in the current year. This standard revises the definition of debt to include liabilities that arise from a contractual obligation to pay cash to settle an amount that is fixed at the date the contractual obligation is established. The guidance expands note disclosures to include the amount of unused lines of credit, assets pledged as collateral for debt, and terms specified for defaults, termination, or subjective acceleration clauses. This statement had immaterial financial impact for either the City or WMU.

FUTURE IMPLEMENTATION OF GASB STANDARDS

GASB Statement No. 87, *Leases*, will be effective for reporting periods beginning after December 15, 2019 (FY2021 for the City and WMU). This standard will require significant changes in reporting for lease agreements and require the reporting of operating leases with a liability and related intangible right-to-use lease asset based on the present value of payments expected to be made during the lease term. Only short-term leases with a lease term of 12 months or less will be excluded from this reporting. Note 6 outlines the terms of current operating leases for the City and only reports future lease payments of \$70,193 on these agreements. However, since the liability and the related intangible right-to-use lease asset will likely have the same balances, there will be no net impact on the City's net position. WMU has no operating leases, therefore there will be no financial impact or reporting changes in the WMU financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, will be effective for reporting periods beginning after December 15, 2019 (FY2021 for the City and WMU). This standard will shift the reporting for construction-period interest from an addition to the asset cost to an expense in the period incurred. This change will only affect WMU and only in future periods when WMU issues debt for construction of a capital asset. WMU has not determined the financial impact of this standard since it will depend on the amount of debt issued and the interest earned during the construction of the related capital asset.

GASBS No 91, *Conduit Debt Obligations*, will be effective for reporting periods beginning after December 15, 2020 (FY2022 for the City and WMU). This standard requires issuers to evaluate the level of commitment for issuers who allow third-party obligors to issue debt using the government issuer's tax-exempt status and may require expanded note disclosures. The City will evaluate the industrial revenue bonds and determine whether changes are required to conform to the provisions of GASBS No. 91 and expand note disclosures as required.

GASB No. 96, *Subscription-Based Information Technology Arrangements*, will be effective for reporting period beginning after June 15, 2022 (FY2023 for the City and WMU).

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

ESTIMATES

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state-chartered banks insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks providing such institutions pledge obligations of the United States government or its agencies as security. As of June 30, 2020, the City is in compliance with this requirement.

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

<u>Investments</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Mutual Fund	\$ 142,241	\$ 142,242
U.S. Government Securities	<u>790,124</u>	<u>750,788</u>
Total Investments	<u>\$ 932,366</u>	<u>\$ 893,031</u>

Custodial Credit Risk

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

Credit Risk State law limits investments in accordance with KRS 95.600 "Pension Fund Investments". The City has no investment policy that would further limit its investment choices. As of June 30, 2020, the City's investments in money market mutual funds were unrated.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

WMU's investment policy conforms to 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:

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

Credit Risk

This risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk exposure.

WMU has no formal policy on managing credit risk; however, Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies and shares in savings and loan associations insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks provided such institutions pledge obligations of the United States government or its agencies as security.

Presented below is the minimum rating required for each type of deposit and investment:

06/30/20		Ratings			
Type	Fair Value	AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 18,624,288	\$ 0	\$ 0	\$ 0	\$ 18,264,288
Total	\$ 18,624,288	\$ 0	\$ 0	\$ 0	\$ 18,264,288

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 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 – WMU RESTRICTED ASSETS

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

1. Revenue Account—All income to WMU is deposited to the Revenue Account and then transferred to the other ordinance accounts as listed below.
2. Bond Redemption Account—The Bond Redemption Account was established to provide a source of funds for the payment of the bond principal and interest due within the current year. By the 20th day of each month funds equal to the total of one-sixth of the semi-annual interest payment plus one-twelfth of the next annual bond principal payment are to be transferred to the account.
3. Reserve Account—The Reserve Account was established to provide funds for the payment of debt based on the least of three provisions: a) maximum annual principal and interest, b) 125% of the average annual principal and interest or c) 10% of bond proceeds.
4. 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.
5. Operation and Maintenance Account—The Operation and Maintenance Account was established to pay the reasonable necessary costs of operating, maintaining and repairing of the systems.

The restricted assets in the accompanying financial statements are restricted as to use by ordinance or by external parties. A schedule of restricted assets at June 30, 2020, follows:

	Cash
Restricted by Ordinance:	
Bond Redemption Account	\$ 727,989
Reserve Accounts	715,861
Depreciation Account	4,073,039
Subtotal	5,516,889
Other Restricted Accounts:	
SDC Water Fund	697,632
SDC Wastewater Fund	337,631
Customer Deposits	131,795
KIA Reserve	725,856
Water Improvements	3,116,703
Capital Accum-Water	25,015
Capital Accum-Wastewater	165,046
Total	\$ 10,716,567
Current Restricted	727,989
Noncurrent Restricted	\$ 9,988,578

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 – PROPERTY PLANT AND EQUIPMENT

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

	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Construction in progress	\$ 671,241	\$ 638,266	\$ 0	\$ 1,309,507
Land	2,152,683	0	0	2,152,683
Total Non-depreciable capital assets	<u>2,823,924</u>	<u>638,266</u>	<u>0</u>	<u>3,462,190</u>
Depreciable capital assets:				
Buildings	6,040,974	274,089	0	6,315,063
Vehicles	7,290,110	230,277	(224,620)	7,295,767
Furniture & fixtures	420,973	0	(1,431)	419,542
Equipment	6,126,372	86,604	(90,846)	6,122,130
Infrastructure	24,849,212	0	(305,222)	24,543,990
Total depreciable capital assets	<u>44,727,641</u>	<u>590,971</u>	<u>(622,119)</u>	<u>44,696,492</u>
Less accumulated depreciation				
Buildings	(3,471,930)	(224,370)	37,975	(3,658,325)
Vehicles	(4,849,808)	(656,145)	243,467	(5,262,486)
Furniture & fixtures	(407,963)	(2,977)	482	(410,458)
Equipment	(4,827,066)	(406,983)	(143)	(5,234,192)
Infrastructure	<u>(18,440,304)</u>	<u>(375,664)</u>	<u>0</u>	<u>(18,815,968)</u>
Total accumulated depreciation	<u>(31,997,071)</u>	<u>(1,666,139)</u>	<u>281,781</u>	<u>(33,381,429)</u>
Total depreciable capital assets, net	<u>12,730,570</u>	<u>(1,075,168)</u>	<u>(340,338)</u>	<u>11,315,063</u>
Governmental activities capital assets, net	<u>\$ 15,554,494</u>	<u>\$ (436,902)</u>	<u>\$ (340,338)</u>	<u>\$ 14,777,253</u>

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

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

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

General Government	\$ 583,244
Public Protection	
Police	246,013
Fire Protection	495,564
EMS	190,338
Public Works	150,980
	<u>\$ 1,666,139</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

WMU's systems consist of the following:

<u>6/30/2020</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

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:

<u>Function</u>	<u>2019</u>
Administrative	\$ 124,404
Water System	1,332,004
Wastewater System	3,123,578
Solid Waste	382,766
Vehicle Maintenance	8,015
Total Depreciation Expense	\$ 4,970,767

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 — INTERFUND ACTIVITY

There were no interfund receivables and payables as of June 30, 2020. The following interfund transfers took place in the year ended June 30, 2020:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Equipment	General	\$ 132,678	Capital Purchases
General	Capital Equipment	\$ 13,156	Capital Purchases
General	Federal & State Grant	\$ 14,102	Grant Matching
Municipal Aid	Capital Equipment	\$ 50,000	Capital Purchases
Police Special Projects	General	\$ 3,587	Expense Reimbursement

NOTE 6 — OPERATING LEASES

The City had operating leases for the following equipment at June 30, 2020. Terms of the operating leases are as follows:

<u>Description</u>	<u>Date</u>	<u>Monthly Payment</u>	<u>Months</u>	<u>Location</u>	<u>End Date</u>
Ricoh IMC3500	6/30/2019	\$190	60	Dispatch	6/30/2024
MPC35043EX Ricoh copier	8/1/2018	187	60	Planning	8/1/2023
MP301SPF Ricoh copier	6/1/2018	47	48	City Manager	6/1/2022
MP301SPF Ricoh copier	6/1/2018	47	48	Finance	6/1/2022
MP6004 Ricoh copier	9/17/2020	297	48	City Administration	9/17/2024
MP5054SP Ricoh copier	9/17/2020	194	48	Fire Sta #3	9/17/2024
MP30555SPF Ricoh copier	12/26/2018	41	60	Fire Sta #2	12/26/2023
MP3504 Ricoh copier	9/17/2020	203	48	Fire Sta #1	9/17/2024
IMC3500 Ricoh copier	6/19/2019	184	60	Police	6/19/2024
MPC4504 Ricoh copier	10/1/2017	194	60	Police-Criminal Investigation	10/1/2022
MPC305SPF Ricoh copier	3/1/2017	39	48	Human Resources	3/1/2021

Rental expense for the current fiscal year was \$19,469. The future minimum payments are as follows:



<u>Year</u>	<u>Amount</u>
6/30/21	\$ 19,309
6/30/22	18,810
6/30/23	14,069
6/30/24	12,870
6/30/25	2,081
Total	\$ 67,139

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 7 — CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2020 consists of the following:

	Construction in Progress			
	Beginning	Additions	Completed	Ending
7th Street	\$ 199,736	\$ -	\$ -	\$ 199,736
Fulton Rd	199,725	-	-	199,725
Community Splash Pad	43,069	-	-	43,069
Lincoln Street	53,777	638,266	-	692,043
Sphar Building	174,934	-	-	174,934
	<u>\$ 671,241</u>	<u>\$ 638,266</u>	<u>\$ -</u>	<u>\$ 1,309,507</u>

NOTE 8 - LONG-TERM DEBT

CHANGES IN LONG-TERM DEBT

Governmental long-term liability activity was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital Leases	\$ 1,667,330	\$ 224,000	347,932	\$ 1,543,398	358,970
Sick Leave	770,610	104,024		874,634	80,769
Total Governmental	<u>\$ 2,437,940</u>	<u>\$ 328,024</u>	<u>347,932</u>	<u>\$ 2,418,032</u>	<u>439,739</u>

Leased facilities and equipment under capital leases in capital assets at June 30, 2020, included the following:

Facilities and Equipment	\$4,492,065
Less: Accumulated Depreciation	<u>(2,211,999)</u>
Net Value	<u>\$2,280,066</u>

Amortization of leased facilities and equipment under capital leases is included with depreciation expense.

CAPITAL LEASES

The City has six capital leases as of June 30, 2020. The liability for the lease obligations have been recorded in the government-wide financial statements. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Details of the leases are presented below.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Purpose	Date	Interest Rate	Term	Outstanding Balance
Winchester Community Center	05/21/10	3.48%	20 years	\$ 964,734
2 Ambulance Remounts	03/15/17	1.89%	4 years	30,853
SCBA's	03/15/17	2.05%	5 years	123,685
Rescue Pumper	03/15/17	4.93%	5 years	123,685
2019 Ambulance Remount	07/03/18	2.89%	4 years	76,441
Street Sweeper	04/16/20	2.45%	5 years	224,000
				<u>\$ 1,543,398</u>

Capital leasing commitments to maturity for the year ending June 30, 2020:

2021	\$ 414,679
2022	297,719
2023	195,701
2024	177,829
2025	175,642
Thereafter	<u>537,766</u>
Total Minimum Lease Payments	1,799,336
Less interest payments	<u>255,938</u>
Present Value of Minimum Lease Payments	<u>\$ 1,543,398</u>

LONG-TERM DEBT—WMU

WMU issues revenue bonds to finance improvements and extensions to the water and sewer systems. The Winchester Municipal Utilities bonded indebtedness and other long-term notes at June 30, 2020 are summarized as follows:

Description	Rate	Maturity	Original Issue	2020 Total
2011 Issue	5.27%	01/01/31	\$ 9,010,000	\$ 245,000
2012 Issue	2.00-3.75%	07/01/32	7,495,000	4,940,000
2014 Issue	2.00-4.00%	07/01/45	9,915,000	8,850,000
2018 Issue	3.00-4.00%	07/01/42	13,045,000	12,980,000
2020 Issue	1.49%	07/01/31	5,557,703	5,557,703
Less: Unamortized Discount				<u>(480,153)</u>
Total Bonds				<u>32,092,550</u>
KIA-Strodes Creek	1.00%	12/01/28	21,000,000	9,441,114
		Estimate		
KIA-Lower Howards Creek	2.00%	01/01/31	36,600,000	25,414,834
		Estimate		
KIA-Bel-Air	2.00%	01/01/31	1,000,000	372,971
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	195,449
KIA-Vaught Court	2.00%	06/01/31	287,400	157,952
KIA-Hampton Manor	1.75%	06/01/37	\$ 1,249,088	1,142,841
Total KIA Loans				<u>36,725,161</u>
Less: Current Maturities				<u>(3,806,166)</u>
Total Long Term				<u>\$ 65,011,545</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

The annual bond and long-term debt service requirements, as of June 30, 2019, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 3,806,167	\$ 1,795,863	\$ 5,602,030
2022	3,628,231	1,555,846	5,184,077
2023	4,077,525	1,486,560	5,564,085
2024	4,431,939	1,410,011	5,841,950
2025	4,517,991	1,327,436	5,845,427
2026-2030	22,828,664	7,285,866	30,114,530
2031-2035	14,471,146	2,973,245	17,444,391
2036-2040	6,896,201	1,596,782	8,492,983
2041-2045	4,640,000	410,575	5,050,575
	<u>\$ 69,297,864</u>	<u>\$ 19,842,184</u>	<u>\$ 89,140,048</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 matures 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.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

Series 2014 Bonds

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

Series 2018 Bonds

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

Refunding, Series 2020 Bonds

On June 17, 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.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

KIA – Vaught Court Loan

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

KIA – Industrial Elevated Storage Tank

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

KIA – Lower Howards Creek

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

KIA – Bel-Air Sanitary

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

KIA – Hampton Manor

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

Changes in Long-Term Debt - WMU

Long-Term Debt consists of bonds and other indebtedness for which the changes in the year ended June 30, 2020 are as follows:

<u>06/30/20 Description</u>	<u>Beginning</u>	<u>Borrowings Additions</u>	<u>Repayments Reductions</u>	<u>2020 Ending</u>	<u>Current</u>
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>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9 – COMPLIANCE WITH BOND ORDINANCES - WMU

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

Bond Debt Service - Bonds

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

In the 2018 Bond Series covenant, WMU entered into an Insurance Agreement with Build America Mutual Assurance Company which guarantees the scheduled payments. The effect of the Insurance Agreement eliminates the bond debt service requirement. WMU is in compliance with these covenants as of June 30, 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. As of June 30, 2020, WMU was not in compliance with this covenant. During the subsequent period, WMU transferred funds to the Depreciation Fund in order to be in compliance.

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:	2020
Income Available for Debt Service	\$ 2,132,255
Add: Depreciation and Change in Pension & OPEB Liability	6,091,255
Cash Available for Bond Debt Service	<u>\$ 8,223,510</u>
Annual Debt Service on Bonds	<u>2,273,488</u>
Coverage Ratio	<u>3.62</u>
KIA:	2020
Income Available for Debt Service	\$ 2,132,255
Add: Depreciation and Change in Pension & OPEB Liability	6,091,255
Cash Available for Debt Service	<u>\$ 8,223,510</u>
Annual Debt Service on all Debt	<u>5,809,459</u>
Coverage Ratio	<u>1.42</u>

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

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

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	\$	1,925,220
Wastewater Utility Improvements		9,200,000
Total projected financing requirement	\$	<u>11,125,220</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		22,800
Replace Microcomputers		7,000
Upgrade Office Suite Software		16,000
Field Operation Vehicles		240,000
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 Valve Replacement		10,000
Elevated Storage Tank Rehabilitation		100,000
Meter Change-Out/AMR Equipment		500,000
New Meter Services		30,000
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
Wastewater Treatment Plant (SC):		
Replacement of Laboratory Equipment		2,000
Annual Allocation for Equipment Improvements		60,000
Wastewater Solids Processing (SC):		
Annual Allocation for Equipment Improvements		65,000
New Roof for Solids Processing Facility		52,800
Concrete Road Repairs/ Improvements		58,000
Wastewater Treatment Plant (LHC)		40,000
Wastewater Solids Processing (LHC):		
Purchase of New Roll Off Truck		90,000
Annual Allocation for Solids Equipment/Improvements		15,000
Total Annual Allocations for Infrastructure Investment		<u>\$ 1,814,100</u>

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2011, 2012, 2014 and 2018 bonds and KIA outstanding debt referenced in Note 8. Proceeds from these debt obligations provided financing of the water and wastewater infrastructure, including a new wastewater treatment plant. The debt obligations will be repaid from the previously mentioned utility revenues through the year 2045.

NOTE 12 – PENSION PLANS

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

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

Describe	CERS	P&F	Total City	WMU
Deferred Outflows	\$ 6,722,357	\$ 28,202	\$ 6,750,559	\$ 2,179,137
Deferred Inflows	\$ 1,364,829	\$ 4,468	\$ 1,369,297	\$ 360,363
Net Pension Liability	\$ 29,959,822	\$ 1,410,672	\$ 31,370,494	\$ 9,050,051
Pension Expense	\$ 4,132,020	\$ 251,749	\$ 4,383,769	\$ 1,061,037

A – POLICEMEN'S AND FIREMEN'S PENSION FUND

Plan Description. The City of Winchester Policemen's and Firemen's Pension Plan is a single-Employer defined benefit pension plan administered by the City of Winchester Policemen's and Firemen's Pension Board. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. It was established pursuant to KRS Sections 95.520 to 95.620. The Plan covered substantially all employees of the City's police and fire departments prior to August 1, 1988.

On July 26, 1988, the City adopted Ordinance 18-88, which phased out the Policemen's and Firemen's Pension Plan by restricting future participation to those existing employees electing to remain in the plan who were active as of August 1, 1988, and to employees who were already drawing retirement or disability payments as of August 1, 1988.

Membership Data for the Closed Plan:

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

On February 16, 1989, the City was accepted into the County Employees' Retirement System of the Commonwealth of Kentucky which was enacted by House Bill 398 during the 1988 General Assembly. The acceptance was retroactive to an effective date of August 1, 1988.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

The Policemen’s and Firemen’s Pension Plan’s actuarial valuation was performed on July 1, 2020, and the report issued by the firm of Findley, LLC. A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board at the Department of Finance, City of Winchester.

The governing board for the City’s Policemen’s and Firemen’s Pension Plan was established under the provisions of KRS 95.520 to 95.620. Pursuant to these requirements, there are four trustees—the mayor, the city treasurer, one member elected by the retired police officers, and one member elected by the retired firefighters. These two members must be retirees of this pension plan.

The governing board has the authority to grant an annual cost-of-living adjustment for retiree benefit payments and has historically used the CPI as a benchmark for determining an annual COLA. The actuarial report as of July 1, 2018 included projections based on a zero COLA and a 2% COLA. The COLAs granted for the last five years are listed below:

Date	COLA
July 1, 2020	2.300%
July 1, 2019	1.900%
July 1, 2018	2.100%
July 1, 2017	2.100%
July 1, 2016	0.700%
July 1, 2015	0.800%
July 1, 2014	1.500%

Pension Plan Investments. The governing board has placed the trust with PNC Institutional Asset Management to invest and manage the trust assets. The president has adopted an investment policy that limits investments to only purchases of U. S. government securities. No formal investment policy has been adopted by the governing board. PNC Institutional Asset Management provides quarterly reports to the governing board. As of June 30, 2020, PNC has invested 15.3% of the trust in a mutual fund (for cash flow purposes) and 84.7% in U.S. Treasury securities. As of June 30, 2020, the annual money-weighted rate of return, net of investment expense is 3.00%.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

As of June 30, 2020, the US Treasury securities included the following:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Rating</u>	<u>Market Value</u>	<u>Cost</u>
Treasury Notes	2.125%	01/31/2021	AAA	\$ 101,121	\$ 99,442
Treasury Notes	2.125%	09/30/2021	AAA	\$ 71,695	\$ 69,442
Treasury Notes	1.750%	05/15/2022	AAA	\$ 102,953	\$ 99,918
Treasury Notes	1.750%	05/15/2023	AAA	\$ 104,500	\$ 99,750
Treasury Notes	2.125%	07/31/2021	AAA	\$ 102,227	\$ 99,156
Treasury Notes	1.500%	11/30/2024	AAA	\$ 105,469	\$ 100,133
Treasury Notes	0.500%	03/31/2025	AAA	\$ 202,132	\$ 201,750

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

Components of the Net Pension Liability. The components of the liability of the City for benefits provided through this single-employer plan include the following as of June 30, 2020:

Total Pension Liability	\$ 2,483,727
Pension Plan's Fiduciary Net Position	(1,073,055)
Net Pension Liability	<u>\$ 1,410,672</u>

Significant Assumptions Used in Actuarial Study. The actuarial analysis, completed as of June 30, 2020, has been based on the demographic estimates for the remaining seven retirees and beneficiaries using the entry age normal funding method as required by GASB Statement Nos. 67 and 68.

- Normal retirement period applied to employees who had completed 20 years of service and obtained the age of 55. The benefit was 50% of monthly salary at time of retirement.
- Mortality rates are based on the RP-2014 Generational Mortality Tables Adjusted to 2006 with projected mortality improvements after 2006 under Scale MP-2019.
- The actuarial assumptions included an assumption for future COLAs based on a geometric average of the COLAs made during the most recent ten years, rounded to the nearest 0.5% (currently 2.0%).
- The actuarial value of assets was determined at the market value as reported by PNC Bank, Kentucky, Inc. plus a checking account balance.
- The projection of cash flows used to determine the discount rate assumed that employer contributions will be made on the basis of the current funding policy. The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments through this date, and a 20-year municipal bond rate was used for the period thereafter to determine the total pension liability. The discount rate used to measure the total pension liability was 2.66%. The source for the municipal bond rate at the valuation date is data from Bonds Online Group, Inc. with market data provided by Reuters, Interactive Data and Market Axess.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

- The actuaries also provide a sensitivity analysis to outline 1% increase/decrease to the current discount rate. These changes in the discount rate would provide the following net pension liabilities:

	1% Decrease	Current Rate	1% Increase
	1.66%	2.66%	3.66%
Total Pension Liability	\$ 2,876,403	\$ 2,483,727	\$ 2,169,793
Plan Fiduciary Net Position	1,073,055	1,073,055	1,073,055
Net Pension Liability	<u>\$ 1,803,348</u>	<u>\$ 1,410,672</u>	<u>\$ 1,096,738</u>

Schedule of Changes in Net Pension Liability. The following table outlines the changes in the total pension liability, plan fiduciary net position, and net position, along with components of the pension expense for the year ended June 30, 2020.

	Increase/(Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Pension Expense
Balances, June 30, 2019	\$ 2,367,898	\$ 1,017,836	\$ 1,350,062	
Changes for the Year:				
Interest expense	64,243	0	64,243	\$ 64,243
Experience loss (gains)	40,553	0	40,553	40,553
Changes of assumptions	129,788	0	129,788	129,788
Employer contributions	0	156,566	(156,566)	0
Net investment income	0	36,458	(36,458)	0
Expected return on plan investments	0	0	0	(26,609)
Current expense of asset gain/loss	0	0	0	29,027
Benefits paid	(118,755)	(118,755)	0	0
Plan administrative expenses	0	(4,303)	4,303	0
Other changes	0	(14,747)	14,747	14,747
Net changes	<u>115,829</u>	<u>55,219</u>	<u>60,610</u>	<u>\$251,749</u>
Balances, June 30, 2020	<u>\$ 2,483,727</u>	<u>\$ 1,073,055</u>	<u>\$ 1,410,672</u>	

Pension Expense Deferred Outflows/Inflows. For the year ended June 30, 2020, the recognized pension expense was \$251,749.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the Winchester Policemen’s and Firemen’s Pension Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between project and actual earnings on investments	\$ 28,202	\$ 4,468
Total	\$ 28,202	\$ 4,468

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

Year ending June 30:	
2021	\$ 19,098
2022	\$ 5,994
2023	\$ (241)
2024	\$ (1,117)
2025	\$ -
Thereafter	\$ -

B - COUNTY EMPLOYEES RETIREMENT SYSTEM

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

Plan Description

Employees working for city, county, and other local governments 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. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System 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 members and beneficiaries. Retirement benefits are classified by the Tier in which the member participates. Tier 1 and Tier 2 are defined benefit plans with variations in how the benefits are calculated. Tier 3 is a cash balance plan that includes guaranteed rates of return for member contributions. Tier 3 benefits are based on accumulated contributions and earnings credited to the member’s account.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

B — COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Beginning in 2015, COLAs were suspended until the retirement funds reach 100% funded status.

Retirement benefits are calculated using factors for the number of years' service multiplied by the "final compensation." Reduced benefits are based on factors of both of these components. Again, the definitions of "final compensation" and the benefit factor for years' of service depend on the Tier in which the member participates. Benefits in Tier 3, the cash balance plan, are limited to the accumulated contributions and earnings credited to the member's account, similar to a defined contribution plan. There are, however, minimum rates of return that are guaranteed and funded with employer contributions when actual earnings are less than these minimum rates.

	NONHAZARDOUS MEMBERS		HAZARDOUS MEMBERS	
Tier 1	Final compensation	Average of highest 5 fiscal years	Final compensation	Average of highest 3 fiscal years
	Benefit factor	2.2% prior to 8/1/2004 or 2% after 8/1/2004	Benefit factor	2.5%
	Interest on member accounts	2%	Interest on member accounts	2%
Tier 2	Final compensation	5 complete fiscal years preceding retirement Scale of 1.1% to 2% based on number of years of service	Final compensation	Average of 3 highest fiscal years Scale of 1.3% to 2.5% based on number of years of service
	Benefit factor		Benefit factor	
	Interest on member accounts	2.5%	Interest on member accounts	2.5%
Tier 3	Final compensation	N/A	Final compensation	N/A
	Benefit factor	N/A	Benefit factor	N/A
	Interest on member accounts	4% plus 75% of earnings in excess of 4%	Interest on member accounts	4% plus 75% of earnings in excess of 4%
	Employer Pay Credit	4% of creditable compensation	Employer Pay Credit	7.5% of creditable compensation

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are provided in a \$5,000 lump sum payment.

- Death benefits before retirement are based on the member’s eligibility for normal or early retirement at the time of death, or five years of service if the member is under the age of 55, or 144 months of service if the member is no longer working for a participating agency.
- If beneficiaries are eligible for benefits, they may choose a lifetime monthly benefit or a lump sum payment for an actuarial refund, or annuities for 5 or 10 years of monthly payments.
- If the beneficiary is not eligible for monthly benefits, a lump sum payment of the member’s contributions and accumulated interest will be paid. Beneficiaries of Tier 3 members will also include the employer pay credit if the member has at least 5 years of service at the time of death.
- If the nonhazardous member dies as a result of a duty-related death, the decedent’s beneficiary will receive the higher of the normal death benefit or \$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.
- If a hazardous member dies as a result of a duty-related death, the spouse may elect either the normal death benefit options or a lump sum payment of \$10,000 and a lifetime monthly benefit equal to 25% of the member’s monthly final rate of pay. Other beneficiaries may elect either the normal death benefit options or a lump sum payment of \$10,000.
- Dependent children also receive benefits for duty-related deaths as a monthly benefit equal to 10% of the member’s monthly final rate of pay. But, dependent children benefits cannot total more than 40% of the monthly final rate of pay.

Contributions

Required contributions by the employee are based on the Tier:

	Nonhazardous Required Contribution	Hazardous Required Contribution
Tier 1	5%	8%
Tier 2	5% + 1% for insurance	8% + 1% for insurance
Tier 3	5% + 1% for insurance	8% + 1% for insurance

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

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

At June 30, 2020, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability:	
Nonhazardous plan (.084409%)	\$ 5,936,526
Hazardous plan (.869686%)	<u>24,023,296</u>
Total City's proportionate share	<u>\$ 29,959,822</u>
WMU's proportionate share of the net pension liability (.128679%)	<u>\$ 9,050,051</u>

The net pension liability for each plan was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2019, the City's proportion was 0.084409% of the nonhazardous plan and 0.869686% of the hazardous plan. WMU's proportion was .128679% of the CERS nonhazardous plan. For the year ended June 30, 2020, the City recognized pension expense of \$663,803 for nonhazardous members and \$3,468,218 for hazardous members in CERS. WMU recognized expense of \$1,061,037.

At June 30, 2020, City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Non-hazardous Deferred Outflows of Resources	Hazardous Deferred Outflows of Resources	Total City Deferred Outflows of Resources	WMU Deferred Outflows of Resources	Non-hazardous Deferred Inflows of Resources	Hazardous Deferred Inflows of Resources	Total City Deferred Inflows of Resources	WMU Deferred Inflows of Resources
Differences between expected and actual experience	\$ 151,577	\$ 1,020,694	\$ 1,172,271	\$ 231,075	\$ 25,083	\$ -	\$ 25,083	\$ 38,239
Changes of assumptions	600,843	2,331,922	2,932,765	915,968	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	113,958	369,558	483,516	173,725	209,657	709,550	919,207	319,616
Changes in proportion and differences between City's contributions and proportionate share of contributions	45,968	63,435	109,403	252,141	84,384	336,155	420,539	2,508
City's contributions subsequent to the measurement date	376,364	1,648,038	2,024,402	606,228	-	-	-	-
Totals	<u>\$ 1,288,710</u>	<u>\$ 5,433,647</u>	<u>\$ 6,722,357</u>	<u>\$ 2,179,137</u>	<u>\$ 319,124</u>	<u>\$ 1,045,705</u>	<u>\$ 1,364,829</u>	<u>\$ 360,363</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

\$2,024,402 reported as deferred outflows of resources related to pensions resulting from City contributions and \$606,228 resulting from WMU contributions subsequent to the measurement date for the 2020 plan year 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,	Amortization of Pension Deferred Outflows (Inflows) of Resources			
	Non-hazardous	Hazardous	Total City	WMU
2021	\$ 415,906	\$ 1,957,115	\$ 2,373,021	\$ 750,601
2022	118,106	571,507	689,613	327,161
2023	52,420	189,629	242,049	124,435
2024	6,790	21,653	28,443	13,050
2025	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ 593,222</u>	<u>\$ 2,739,904</u>	<u>\$ 3,333,126</u>	<u>\$ 1,215,247</u>

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increase	Ranges from 3.30% to 19.05%, depending on years of service and classification
Inflation	2.30%
Payroll growth assumption	2%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation

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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

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. 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%	4.30%
International Equity	18.75%	4.80%
Private Credit	10.00%	6.65%
High Yield Credit	15.00%	2.60%
Liquidity:	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

Discount rate

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

Sensitivity of City's proportionate share of CERS net pension liability to changes in the discount rate—The following table presents the net pension liability of City, calculated using the discount rates selected by each pension system, as well as what City net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	5.25%	6.25%	7.25%
CERS -- NonHazardous	\$ 7,424,906	\$ 5,936,526	\$ 4,695,969
CERS -- Hazardous	30,034,511	24,023,296	19,094,967
Total Net Pension Liabilities	<u>\$ 37,459,417</u>	<u>\$ 29,959,822</u>	<u>\$ 23,790,936</u>
WMU Net Pension Liabilities	\$ 11,319,047	\$ 9,050,051	\$ 7,158,865

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 12 – PENSION PLANS (CONTINUED)

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

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of the Kentucky Retirement Systems.

C — OTHER WMU PENSION PLANS

WMU offers employees the option to participate in a defined contribution plan under Section 403(B) and 401(K) of the Internal Revenue Code. All regular full time and part time employees are eligible to participate and may contribute up to the maximum amount allowable by law.

Also, 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 their 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 and 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 report these assets and liabilities on its financial statements.

Employee contributions made to the 401k and 457 plans as of June 30, 2020 were \$86,178. WMU does not contribute to these plans.

NOTE 13 – CONTINGENCIES AND COMMITMENTS

A – INDUSTRIAL DEVELOPMENT BONDS

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

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

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

B - LITIGATION

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

C – WMU

On December 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 is approximately 92% complete.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 13 – CONTINGENCIES AND COMMITMENTS (CONTINUED)

C – WMU (CONTINUED)

On August 6, 2020, WMU Commission approved the Lincoln Street water and sewer line replacement at a projected cost of \$200,000. The project anticipated to being in calendar year 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 14 – WMU – LANDFILL POST-CLOSURE COSTS

In 1992, WMU discontinued its landfill operations and ceased accepting solid waste. Under 401 KAR 47:080, WMU presented a closure plan. The final cap, leachate collection systems, surface water drainage systems, gas vent systems and groundwater monitoring systems have been constructed. On June 4, 1998, the Clark County Fiscal Court entered into a lease agreement with WMU for the rental of county property upon which the County and WMU formerly operated landfills, the term of the lease was for 20 years at \$1 per year. The lease provides provision for the post-closure monitoring requirements of state and federal law to be provided by WMU. The post-closure costs are allocated 30% WMU and 70% Clark County Fiscal Court. The state and federal monitoring and maintenance regulations must be performed at the site for 30 years after closure. A liability was not recorded on WMU's general ledger in the year of closure; instead the actual post-closure expenses have been recorded in operations each year.

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

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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 15 – WMU – ECONOMIC DEPENDENCY

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

Name	2020
The Kroger Company	\$ 801,489
Danimer	588,441
Sekisui	349,055
East Clark County WD	289,643
Infiltrator	320,458
Catalent	201,756
	\$ 2,550,842

NOTE 16 – RISK MANAGEMENT

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

CITY – SELF-INSURANCE

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

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

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

<u>Fiscal Year Ended June 30</u>	<u>Claims Payable July 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable June 30</u>
2014	\$ 109,611	\$ 1,112,190	\$ 1,108,140	\$ 113,661
2015	\$ 113,661	\$ 1,302,942	\$ 1,253,766	\$ 162,837
2016	\$ 162,837	\$ 1,849,045	\$ 1,781,190	\$ 230,692
2017	\$ 230,692	\$ 1,132,974	\$ 1,214,304	\$ 149,362
2018	\$ 149,362	\$ 1,618,644	\$ 1,716,969	\$ 247,687
2019	\$ 247,687	\$ 1,965,596	\$ 2,136,771	\$ 418,862
2020	\$ 418,862	\$ 1,586,234	\$ 1,645,427	\$ 359,669

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 17 – FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

In accordance with the guidance in GASB Statement 54, the City has classified ending fund balance based on the availability of funds for expenditure on programs and services. Restricted fund balance reflects funds that are limited to projects funded by federal, state, or local grants (\$233,251) and shared revenues from the Commonwealth of Kentucky (\$934,330). Committed fund balance includes amounts set aside by the City Commission for balances held by a third-party administrator to pay future employee health care claims (\$61,991), special projects (\$364,572), and capital acquisitions (\$2,626,187). Assigned fund balance includes amounts set aside for the special projects (\$6,103).

NOTE 18 – LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUNDS

The City received \$12,091 in LGEA Funds during the current fiscal year. The City is in a non-coal producing county and is required to expend these funds in accordance with KRS 42.470, which limits the expenditures to public transportation, including mass transit systems, streets and roads. During fiscal year 2019, the City did not spend any funds on LGEA projects.

NOTE 19 – RELATED ORGANIZATIONS

The City participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. In most cases, the city and county contribute equal funding for operations. The following table outlines these organizations and the City’s contribution during fiscal year 2020.

Winchester/Clark County Planning & Zoning	\$ 7,000
Winchester/Clark County Parks & Recreation	416,400
Clark County/Winchester Heritage Commission	15,000
Winchester/Clark County Recreation	57,000
Winchester/Clark County Tourism Commission	9,000
Winchester/Clark County Industrial Development Authority	138,300
Winchester/Clark County Board of Adjustment	1,500
Clark County GIS	87,000
Total Contributions	<u>\$ 731,200</u>

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS

GASB standards require the separation of healthcare benefits (OPEB) provided to retirees from the service-related pension benefits if these benefits are provided in conjunction with a defined benefit plan. As we noted in Note 1 — Summary of Significant Accounting Policies, GASB Statement No. 75 required the City and its component unit, WMU, to recognize their proportionate share of the collective net OPEB liability for the CERS cost-sharing plan, as well as the net OPEB liability associated with the single-employer Policemen’s and Firemen’s Pension Fund for the fiscal year ended June 30, 2020.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

		City		WMU
Deferred Outflows	\$	3,032,146	\$	889,727
Deferred Inflows	\$	2,342,718	\$	771,012
Net OPEB Liability	\$	7,852,536	\$	2,163,768
OPEB Expense	\$	580,244	\$	59,288

Plan Description—Policemen’s & Firemen’s Pension Fund. The Health Reimbursement Account added in 2004 is paid directly by the City based on actual costs incurred by the retirees. Any liability associated with that benefit has not been recognized in the actuarial analysis of the service-related pension benefits and is funded on a pay-as-you-go approach. During the year ended June 30, 2020, the City contributed \$0 to fund these OPEB benefits. Management has determined that the OPEB liability associated with this benefit is not material and has not calculated the OPEB liability using the guidance in GASBS No. 74 or 75.

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM

Plan Description—CERS. 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.

Percentage of contribution 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.

	NONHAZARDOUS MEMBERS		HAZARDOUS MEMBERS	
Tier 1	Participation before 7/1/2003	Based on % for each year of service	Participation before 7/1/2003	Based on % for each year of service, but includes coverage for spouse & dependent insurance Requires 10 years of service; \$15 per month for each year of earned service; includes spouse & dependent coverage
	Participation after 7/1/2003	Requires 10 years of service; \$10 per month for each year of earned service	Participation after 7/1/2003	

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Tier 2	Participation after 9/1/2008	Requires 15 years of service for eligibility	Participation after 9/1/2008	Requires 15 years of service for eligibility; includes coverage for spouse & dependents \$15 per month for each year of service; adjusted by 1.5% annually; \$10 per month for each year for surviving spouse; includes coverage for spouse & dependents
	Benefit	\$10 per month for each year of service; adjusted by 1.5% annually	Benefit	
Tier 3	Participation after 1/1/2015	Requires 15 years of service for eligibility	Participation after 1/1/2015	Requires 15 years of service for eligibility; includes coverage for spouse & dependents \$15 per month for each year of service; adjusted by 1.5% annually; \$10 per month for each year for surviving spouse; includes coverage for spouse & dependents
	Benefit	\$10 per month for each year of service; adjusted by 1.5% annually	Benefit	

Funding Policy – CERS. CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2019 measurement period, CERS allocated 5.26% of the 21.48% actuarially required employer contribution rate for non-hazardous employees and 10.47% of the 35.34% for hazardous employees for funding the healthcare benefit. In addition, 1% of the Tier 2 and Tier 3 employee contributions of 6% are allocated to the health insurance plan.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by the City as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with the City were as follows:

City 's proportionate share of the net OPEB liability	
Nonhazardous plan (.084387%)	\$ 1,419,351
Hazardous plan (.869514%)	<u>6,433,185</u>
Total proportionate share	<u>\$ 7,852,536</u>
WMU proportionate share of the net OPEB liability (.128646%)	\$ 2,163,768

The net OPEB liability for each plan was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019, the measurement date.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The City’s proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2019, the City’s proportion was 0.084387% of the nonhazardous plan and 0.869514% of the hazardous plan. WMU’s proportion was .128646% of the nonhazardous plan.

For the year ended June 30, 2020, the City recognized OPEB expense of \$16,856 for nonhazardous members and \$563,388 for hazardous members in CERS.

At June 30, 2020, City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Non-hazardous Deferred Outflows of Resources	Hazardous Outflows of Resources	Total City Deferred Outflows of Resources	WMU Deferred Outflows of Resources	Non-hazardous Deferred Inflows of Resources	Hazardous Deferred Inflows of Resources	Total City Deferred Inflows of Resources	WMU Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 428,251	\$ 1,196,782	\$ 1,625,033	\$ 652,859
Changes of assumptions	419,999	1,944,080	2,364,079	640,279	2,809	12,181	14,990	4,282
Net difference between projected and actual earnings on pension plan investments	9,349	43,961	53,310	14,252	72,390	413,827	486,217	110,357
Changes in proportion and differences between City's contributions and proportionate share of contributions	-	-	-	85,681	55,335	161,143	216,478	3,514
City's contributions subsequent to the measurement date	92,823	521,934	614,757	149,515	-	-	-	-
Totals	\$ 522,171	\$ 2,509,975	\$ 3,032,146	\$ 889,727	\$ 558,785	\$ 1,783,933	\$ 2,342,718	\$ 771,012

\$614,757 reported as deferred outflows of resources related to OPEB resulting from City contributions and \$149,515 resulting from WMU contributions subsequent to the measurement date for the 2020 plan year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

Year ended June 30,	Amortization of OPEB Deferred Outflows (Inflows) of Resources			
	Non-hazardous	Hazardous	Total City	WMU
2021	\$ (22,483)	\$ 360,791	\$ 338,308	\$ 103
2022	(22,483)	18,631	(3,852)	103
2023	(2,440)	(178,482)	(180,922)	30,658
2024	(40,809)	3,168	(37,641)	(27,914)
2025	(34,947)	-	(34,947)	(29,418)
Thereafter	(6,275)	-	(6,275)	(4,331)
	<u>\$ (129,437)</u>	<u>\$ 204,108</u>	<u>\$ 74,671</u>	<u>\$ (30,799)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2019 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	3.05% - 18.55%, depending on years of service and classification
Inflation rate	2.30%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Ages 65 and Older	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years
Municipal Bond Index Rate	3.13%
Discount Rate	5.68% Non-hazardous, 5.69% 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, 2019 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 2019 for use with the June 30, 2019 valuation in order to reflect future economic expectations.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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.

<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%	4.30%
International Equity	18.75%	4.80%
Private Credit	10.00%	6.65%
High Yield Credit	15.00%	2.60%
Liquidity:	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	.20%
Diversifying Strategies:		
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	<u>15.00%</u>	4.10%
Total	<u>100.00%</u>	

Discount rate

The single discount rate of 5.68% for CERS nonhazardous and 5.69% for CERS hazardous was used to measure the total OPEB liability as of June 30, 2019. The Single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. 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, 2019) 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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The following table presents the City and WMU's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68% and 5.69% for Non-hazardous and Hazardous, respectively, 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 (4.68%/4.69%) or 1-percentage-point higher (6.68%/6.69%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS -- NonHazardous	\$ 1,901,347	\$ 1,419,351	\$ 1,022,219
CERS -- Hazardous	8,975,589	6,433,185	4,369,491
Total Net OPEB Liabilities	<u>\$ 10,876,936</u>	<u>\$ 7,852,536</u>	<u>\$ 5,391,710</u>
WMU Net OPEB Liabilities	\$ 2,898,559	\$2,163,768	\$1,558,349

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS -- NonHazardous	\$ 1,055,579	\$ 1,419,351	\$ 1,860,469
CERS -- Hazardous	4,476,307	6,433,185	8,820,468
Total Net OPEB Liabilities	<u>\$ 5,531,886</u>	<u>\$ 7,852,536</u>	<u>\$ 10,680,937</u>
WMU Net OPEB Liabilities	\$ 1,609,205	\$ 2,163,768	\$ 2,836,241

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

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

The City and Catalent Pharma Solutions, LLC entered into several agreements during fiscal year 2017. These agreements are in connection with the City of Winchester, Kentucky Industrial Building Revenue Bonds Series 2015 (Bonds). The Bonds will be used for the Catalent Pharma Solutions, LLC Project expansion (Project). The City entered into an In-Lieu of Tax Payment Agreement (Agreement) and a Lease agreement (Lease) with Catalent Pharma Solutions, LLC. (Catalent). The lease agreement was amended during fiscal year 2018 to include a tract of omitted property. Catalent paid the City \$43,397 in-lieu tax payment during fiscal year 2020.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 22 - DEFICIT OPERATING/ FUND BALANCES

No funds were operating as a deficit fund balance at June 30, 2020. The following funds had operations that resulted in a current year deficit after transfers and other financing sources (see Note 5) of revenues over expenditures resulting in the following reductions of fund balances:

Municipal Aid Fund	\$ 103,483
Mainstreets Fund	\$ 92,219
Police Special Projects Fund	\$ 65,227
Fire Special Projects Fund	\$ 2,697

NOTE 23– RISKS AND UNCERTAINTIES

During the year ended June 30, 2020, the World Health Organization declared the coronavirus disease (COVID-19) outbreak to be a pandemic. COVID -19 continues to spread across the globe and is impacting worldwide economic activity. The continued spread of the disease represents a significant risk that operations will continue to be disrupted for the foreseeable future. The full extent to which COVID-19 impacts the City will depend on future developments which are highly uncertain and cannot be predicted.

NOTE 24 – SUBSEQUENT EVENTS

The City has evaluated all subsequent events through January 29, 2021 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

**CITY OF WINCHESTER, KENTUCKY
SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES
POLICEMEN'S AND FIREMEN'S DEFINED PENSION TRUST
FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019	2018	2017	2016	2015	2014
SCHEDULE OF CHANGES IN NET PENSION LIABILITY:							
Total Pension Liability:							
Total Pension Liability - beginning of period	\$ 2,367,898	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956	\$ 2,229,075
Interest cost	64,243	66,934	69,137	78,290	88,989	90,061	108,334
Differences between expected and actual experience	40,553	30,779	34,680	9,417	(2,392)	(117,035)	(18,476)
Changes of assumptions	129,788	78,273	50,570	56,183	183,853	105,860	(74,789)
Benefit payments	(118,755)	(118,251)	(115,818)	(115,820)	(117,851)	(116,917)	(115,188)
Total Pension Liability - end of period	<u>2,483,727</u>	<u>2,367,898</u>	<u>2,310,163</u>	<u>2,271,594</u>	<u>2,243,524</u>	<u>2,090,925</u>	<u>2,128,956</u>
Plan Fiduciary Net Position							
Plan Fiduciary Net Position - beginning of period	1,017,836	1,111,050	1,181,440	1,277,267	1,364,940	1,472,928	1,567,294
Contributions - Employer	156,566	-	45,000	25,000	20,232	15,662	14,370
Net Investment Income	36,458	31,445	8,231	136	20,234	3,936	15,822
Benefit Payments/Refunds	(118,755)	(118,251)	(115,818)	(115,820)	(123,083)	(119,483)	(115,188)
Other	(19,050)	(6,408)	(7,803)	(5,143)	(4,599)	(8,103)	(9,370)
Plan Fiduciary Net Position - end of period	<u>1,073,055</u>	<u>1,017,836</u>	<u>1,111,050</u>	<u>1,181,440</u>	<u>1,277,724</u>	<u>1,364,940</u>	<u>1,472,928</u>
Net Pension Liability - end of period	<u>\$ 1,410,672</u>	<u>\$ 1,350,062</u>	<u>\$ 1,199,113</u>	<u>\$ 1,090,154</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
SCHEDULE OF NET PENSION LIABILITY							
Total pension liability	\$ 2,483,727	\$ 2,367,898	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	<u>1,073,055</u>	<u>1,017,836</u>	<u>1,111,050</u>	<u>1,181,553</u>	<u>1,277,724</u>	<u>1,364,940</u>	<u>1,472,928</u>
Net pension liability	<u>\$ 1,410,672</u>	<u>\$ 1,350,062</u>	<u>\$ 1,199,113</u>	<u>\$ 1,090,041</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	43.20%	42.98%	48.09%	52.01%	56.93%	65.28%	69.19%
Note: There is no covered payroll for this plan							
SCHEDULE OF CONTRIBUTIONS							
Actuarially determined contribution	\$ 328,272	\$ 265,533	\$ 285,400	\$ 161,363	\$ 215,517	\$ 168,897	\$ 145,214
Actual employer contributions	156,566	0	0	25,000	15,000	10,000	5,000
Contribution deficiency (excess)	<u>\$ 171,706</u>	<u>\$ 265,533</u>	<u>\$ 285,400</u>	<u>\$ 136,363</u>	<u>\$ 200,517</u>	<u>\$ 158,897</u>	<u>\$ 140,214</u>
Note: There is no covered payroll for this plan							
Annual Money-Weighted Rate of Return							
Annual money-weighted rate of return, net of investment expense	3.00%	2.55%	0.35%	-0.39%	1.16%	-0.10%	0.94%
NOTE: These schedules will be expanded to include ten years as the City continues to implement GASB Statement Nos. 67 and 68.							

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
POLICEMEN'S AND FIREMEN'S DEFINED BENEFIT PENSION PLAN**

Valuation Date	6/30/2020
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Amortization Period	Five years, open
Actuarial Asset Valuation Method	Market Value as reported by PNC Bank, Kentucky, Inc., with adjustments as reported by City Treasurer
Actuarial Assumptions:	
Discount Rate	2.66%
Inflation	1.82%
Other	RP-2014 General Mortality Tables Adjusted to 2006

Changes in Assumptions from Prior Actuarial Valuation

	<u>Previous</u>	<u>Current</u>
Discount rate (for funding and GASB calculation purposes)	A 20 year high grade municipal bond rate (currently 2.79% per annum)	A 20 year high grade municipal bond rate (currently 2.66% per annum)

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

	<u>Previous</u>	<u>Current</u>
Mortality rates	RP-2014 Generational Mortality Tables (Total Data Set) adjusted to 2006 with projected mortality improvements under Scale MP-2018 (male and female scales)	RP-2014 Generational Mortality Tables (Total Data Set) adjusted to 2006 with projected mortality improvements under Scale MP-2019 (male and female scales)

Reason: updated mortality tables issued to better recognize current and future mortality improvements.

	<u>Previous</u>	<u>Current</u>
Cost of Living Adjustments (for GASB calculation purposes)	Geometric average of the COLAs made during the most recent five years (currently 1.52% per annum)	Geometric average of the COLAs made during the most recent five years (currently 1.82% per annum)

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

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

**CITY OF WINCHESTER, KENTUCKY
COST-SHARING DEFINED BENEFIT PENSION SCHEDULES & NOTES
June 30, 2020**

TABLE 1--PROPORTIONATE SHARE OF COLLECTIVE LIABILITY

Measurement Date - June 30	2019	2018	2017	2016	2015	2014
City's Financial Reporting Date - June 30	2020	2019	2018	2017	2016	2015
NONHAZARDOUS PLAN						
Proportionate share percentage	0.084409%	0.085848%	0.087774%	0.080160%	0.081660%	0.079420%
Proportionate share amount	\$ 5,936,526	\$ 5,228,405	\$ 5,135,516	\$ 3,946,977	\$ 3,510,870	\$ 2,576,677
Covered Payroll	\$ 2,046,746	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523	\$ 1,642,702
Collective share of NPL as % of payroll	290.47%	260.96%	259.51%	209.53%	193.06%	156.86%
Plan's fiduciary net position as a percentage of total pension liability	50.45%	53.54%	52.80%	59.00%	59.97%	66.80%
HAZARDOUS PLAN						
Proportionate share percentage	0.869686%	0.894096%	0.893961%	0.863610%	0.909610%	0.896320%
Proportionate share amount	\$ 24,023,296	\$ 21,623,327	\$ 20,000,398	\$ 14,819,031	\$ 13,963,426	\$ 10,772,225
Covered Payroll	\$ 4,814,069	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643	\$ 4,001,725
Collective share of NPL as % of payroll	499.02%	401.27%	401.73%	308.47%	293.00%	269.19%
Plan's fiduciary net position as a percentage of total pension liability	46.63%	49.26%	48.10%	57.41%	57.52%	63.46%
Proportionate share (amounts)						
Nonhazardous	\$ 5,936,526	\$ 5,228,405	\$ 5,135,516	\$ 3,946,977	\$ 3,510,870	\$ 2,576,677
Hazardous plan	24,023,296	21,623,327	20,000,398	14,819,031	13,963,426	10,772,225
Total proportionate share	\$ 29,959,822	\$ 26,851,732	\$ 25,135,914	\$ 18,766,008	\$ 17,474,296	\$ 13,348,902

TABLE 2--CONTRIBUTIONS

City's Financial Reporting Date - June 30	2020	2019	2018	2017	2016	2015
NONHAZARDOUS PLAN						
Required Contributions	\$ 376,364	\$ 308,096	\$ 297,996	\$ 227,751	\$ 243,800	\$ 250,345
Contributions Recognized by Plan	376,364	308,096	297,996	227,751	243,800	250,345
Difference	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,046,746	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523	\$ 1,818,523
Contributions as Percentage of Payroll	18.39%	15.38%	15.06%	12.09%	13.41%	13.77%
HAZARDOUS PLAN						
Required Contributions	\$ 1,648,038	\$ 1,105,691	\$ 1,065,385	\$ 912,949	\$ 983,018	\$ 988,321
Contributions Recognized by Plan	1,648,038	1,105,691	1,065,385	912,949	983,018	988,321
Difference	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 4,814,069	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643	\$ 4,765,643
Contributions as Percentage of Payroll	34.23%	20.52%	21.40%	19.00%	20.63%	20.74%

NOTE: These schedules will be expanded to include ten years as the City continues to implement GASBS Nos. 67 & 68.

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COST SHARING DEFINED BENEFIT PENSION**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on an annual basis, based on a measurement two years prior to the City's fiscal year. In July 2013, the amortization period of the unfunded liability was reset to a closed 30 year period. The following actuarial assumptions were revised for the June 30, 2019 valuation:

Salary Increase	Ranges from 3.30% to 19.05%, depending on years of service and classification
Inflation	2.30%
Payroll growth assumption	2%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation

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

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

**COST-SHARING DEFINED BENEFIT OPEB SCHEDULES & NOTES
FOR THE YEAR ENDED JUNE 30, 2020**

TABLE 1--PROPORTIONATE SHARE OF COLLECTIVE LIABILITY

Measurement Date - June 30 City's Financial Reporting Date - June 30	2019 2020	2018 2019	2017 2018	2016 2017
NONHAZARDOUS PLAN				
Proportionate share percentage	0.084387%	0.085845%	0.087737%	0.085845%
Proportionate share amount	\$ 1,419,351	\$ 1,524,161	\$ 1,763,814	1,763,814
Covered Payroll	\$ 2,174,972	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734
Collective share of NPL as % of payroll	65.3%	76.1%	89.1%	93.6%
Plan's fiduciary net position as a percentage of total pension liability	60.44%	57.62%	66.40%	69.60%
HAZARDOUS PLAN				
Proportionate share percentage	0.869514%	0.894146%	0.893961%	0.894146%
Proportionate share amount	\$ 6,433,185	\$ 6,374,898	\$ 7,390,121	7,390,121
Covered Payroll	\$ 5,074,762	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031
Collective share of NPL as % of payroll	126.77%	118.30%	148.44%	153.83%
Plan's fiduciary net position as a percentage of total pension liability	64.44%	64.24%	66.90%	72.90%
Proportionate share (amounts)				
Nonhazardous	\$ 1,419,351	\$ 1,524,161	\$ 1,763,814	\$ 1,763,814
Hazardous plan	6,433,185	6,374,898	7,390,121	7,390,121
Total proportionate share	<u>\$ 7,852,536</u>	<u>\$ 7,899,059</u>	<u>\$ 9,153,935</u>	<u>\$ 9,153,935</u>

TABLE 2--CONTRIBUTIONS

City's Financial Reporting Date - June 30	2020	2019	2018	2017
NONHAZARDOUS PLAN				
Required Contributions	\$ 92,823	\$ 118,194	\$ 101,041	\$ 84,160
Contributions Recognized by Plan	92,823	118,194	101,041	84,160
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 2,174,972	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734
Contributions as Percentage of Payroll	4.27%	5.90%	5.11%	4.47%
HAZARDOUS PLAN				
Required Contributions	\$ 521,934	\$ 426,461	\$ 458,837	\$ 584,655
Contributions Recognized by Plan	521,934	426,461	458,837	584,655
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 5,074,762	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031
Contributions as Percentage of Payroll	10.28%	7.91%	9.22%	12.17%

NOTE: These schedules will be expanded to include ten years as the City continues to implement GASBS Nos. 74 & 75

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COST SHARING DEFINED BENEFIT OPEB**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on an annual basis, based on a measurement two years prior to the City's fiscal year. The following actuarial assumptions were revised for the June 30, 2018 valuation:

Salary Increase	Ranges from 3.30% to 19.05%, depending on years of service and classification
Inflation	2.30%
Payroll growth assumption	2%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation
Health care cost trend rate:	Pre-65: Initial trend starting at 7.25%, declining to 4.05%
	Post-65: Initial trend starting at 5%, declining to 4.05%

OTHER SUPPLEMENTARY INFORMATION

CITY OF WINCHESTER, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	FEDERAL & STATE GRANT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:											
Cash and Cash Equivalents	\$ 917,987	\$ 19,216	\$ 10	\$ 32,476	\$ 130,707	\$ 36,900	\$ 77,331	\$ 32,816	\$ 54,342	\$ 225,624	\$ 1,527,409
Accounts Receivable	-	-	9,291	-	-	-	-	-	-	7,617	16,908
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 917,987	\$ 19,216	\$ 9,301	\$ 32,476	\$ 130,707	\$ 36,900	\$ 77,331	\$ 32,816	\$ 54,342	\$ 233,241	\$ 1,544,317
LIABILITIES:											
Accounts Payable	\$ 2,873	\$ -	\$ 9,291	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,164
Due to Other Funds	-	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	2,873	-	9,291	-	-	-	-	-	-	-	12,164
FUND BALANCES:											
Restricted Fund Balance	915,114	19,216	10	-	-	-	-	-	-	233,241	1,167,581
Committed Fund Balance	-	-	-	32,476	130,707	36,900	77,331	32,816	54,342	-	364,572
TOTAL FUND BALANCES	915,114	19,216	10	32,476	130,707	36,900	77,331	32,816	54,342	233,241	1,532,153
TOTAL LIABILITIES AND FUND BALANCES	\$ 917,987	\$ 19,216	\$ 9,301	\$ 32,476	\$ 130,707	\$ 36,900	\$ 77,331	\$ 32,816	\$ 54,342	\$ 233,241	\$ 1,544,317

The accompanying notes are an integral part of this statement.

**CITY OF WINCHESTER, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	FEDERAL & STATE GRANT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:											
Taxes	\$ -	\$ -	\$ 135,353	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 135,353
Intergovernmental	365,620	12,091	-	-	-	1,856	9,352	-	43,487	1,140,978	1,573,384
Investment Income	18,230	253	328	602	4,210	2,748	1,236	790	799	3,561	32,757
Other	-	-	3,931	2,010	93,681	8,311	7,191	13,716	-	-	128,840
TOTAL REVENUES	383,850	12,344	139,612	2,612	97,891	12,915	17,779	14,506	44,286	1,144,539	1,870,334
EXPENDITURES:											
City Commission	-	-	-	-	-	-	-	-	-	-	-
Main Street Department	-	-	-	-	190,110	-	-	-	-	-	190,110
Administration	-	-	-	-	-	-	-	-	-	-	-
Planning	-	-	-	599	-	-	-	-	-	-	599
Police Department	-	-	-	-	-	32,510	1,213	-	29,926	-	63,649
Fire Department	-	-	-	-	-	-	-	17,203	-	113,786	130,989
EMS	-	-	-	-	-	-	-	-	-	-	-
Public Works	437,333	-	-	-	-	-	-	-	-	-	437,333
Intergovernmental	-	-	139,604	-	-	-	-	-	-	386,342	525,946
Capital	-	-	-	-	-	42,045	-	-	-	638,266	680,311
TOTAL EXPENDITURES	437,333	-	139,604	599	190,110	74,555	1,213	17,203	29,926	1,138,394	2,028,937
Excess (Deficit) of Revenues over Expenditures	(53,483)	12,344	8	2,013	(92,219)	(61,640)	16,566	(2,697)	14,360	6,145	(158,603)
OTHER FINANCING SOURCES (USES):											
Operating transfers in	-	-	-	-	-	-	-	-	-	14,102	14,102
Operating transfers out	(50,000)	-	-	-	-	(3,587)	-	-	-	-	(53,587)
TOTAL OTHER FINANCING SOURCES (USES):	(50,000)	-	-	-	-	(3,587)	-	-	-	14,102	(39,485)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(103,483)	12,344	8	2,013	(92,219)	(65,227)	16,566	(2,697)	14,360	20,247	(198,088)
Fund Balance June 30, 2019	1,018,597	6,872	2	30,463	222,926	102,127	60,765	35,513	39,982	212,994	1,730,241
Fund Balance June 30, 2020	\$ 915,114	\$ 19,216	\$ 10	\$ 32,476	\$ 130,707	\$ 36,900	\$ 77,331	\$ 32,816	\$ 54,342	\$ 233,241	\$ 1,532,153

The accompanying notes are an integral part of this statement.

CITY OF WINCHESTER
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2020

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
U.S. Department of Homeland Security			
Fire and Emergency Medical Administration			
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2016-FH-00138	\$ 25,286
Total Department of the Treasury			<u>25,286</u>
Passed Through Kentucky Department of Local Government			
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	Winchester Lincoln Street Redevelopment #17-037	628,266
Total Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii			<u>628,266</u>
Total Department of Housing and Urban Development			<u>628,266</u>
U.S. Department of the Treasury			
Coronavirus Relief Fund			
Coronavirus Relief Fund	21.019	COVID-19 Relief Fund C148 City of Winchester	386,342
Total Coronavirus Relief Fund			<u>386,342</u>
Total Department of the Treasury			<u>386,342</u>
Total Expenditures of Federal Awards			<u>\$ 1,039,894</u>

The accompanying notes are an integral part of this schedule

CITY OF WINCHESTER, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Winchester under the programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of operations of the Menifee County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GOVERNMENT AUDITING STANDARDS REPORTS

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

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

STUART K. McCRARY, JR., CPA
THOMAS S. SPARKS, CPA
RYAN R. LASKI, CPA

SUSAN A. LACY, CPA
JUSTIN B. NICHOLS, CPA
EMILY N. JACKSON, CPA
ALEX R. LEE, CPA

LAURENCE T. SUMMERS
1961-1992

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

To the City Commissioners
City of Winchester
Winchester, KY 40391

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Winchester as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Winchester's basic financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Winchester's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Winchester's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Winchester's internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Winchester's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed two instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2020-01.

We noted certain matters that we reported to management for the City in a separate letter dated January 29, 2021.

District's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Summers, McCrary & Sparks, PSC

Lexington, KY
January 29, 2021

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

To the City of Commissioners
City of Winchester
Winchester, KY 40391

Report on Compliance for Each Major Federal Program

We have audited the City of Winchester's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Winchester's major federal programs for the year ended June 30, 2020. City of Winchester's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Winchester's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Winchester's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Winchester's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Winchester complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the City of Winchester is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Winchester's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Winchester's internal control over compliance.

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

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

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

Summers, McCrary & Sparks, PSC

Lexington, KY
January 29, 2021

**CITY OF WINCHESTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiencies identified yes X none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over majority programs:

Material weakness(es) identified? yes X no

Significant deficiencies identified yes X none reported

Type of auditor's report issued on compliance for the major programs - unmodified

Any audit findings disclosed that are required to be report in accordance with 2 CFR section 200.516 (a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
#14.228	CDBG

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

**CITY OF WINCHESTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings

2020-01: Publication of Audit

Condition: The city did not publish the FY 2019 Audit within 30 days after approval by the City Commission in accordance with KRS 424.220.

Criteria: The City is required to follow KRS 424.220.

Cause: Employees staffing transitions and inadequate communication between City departments.

Effect: Noncompliance with Kentucky Revised Statutes.

Recommendation: The City should review publication requirements in the KRS among the various City departments heads to ensure the City is compliant.

Response: A procedure has been established and will be implemented as follows. The City Clerk will place all audits, budgets, and budget amendments in the newspaper and copy the Finance Department on this publication so as to have a checks and balance in place to prevent future occurrences of this sort. Finance has also placed a yearly reminder in the system to follow up with the City Clerk after the audit presentation to the Commission has been completed and approved.

Section III – Federal Award Findings and Questioned Costs

No findings in the current year.

**CITY OF WINCHESTER
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings

2019-01: Budget

Condition: The Budget Amendment was not published as required by KRS 424.240. The amended budget amounts were not amended in the City's software. The amended Budget ordinance amounts did not reconcile back to supporting documentation.

Criteria: The City is required to follow KRS 424.240. The City financial reports should reflect the approved budget and budget amendments should be reconcilable to supporting documentation.

Effect: Noncompliance with Kentucky Revised Statutes.

Cause: Employees staffing transitions and lack of training and review over financial budgetary reports.

Recommendation: The City should review procedures over the budget administrative controls to see if responsible staff and properly trained and that procedures are in place the final budgetary balances are reflected in the City's financial reporting.

Status: No similar finding in the current year.

2019-02: Publication of Audit

Condition: The City did not publish the FY 2018 audit within 30 days after approval by the City Commission in accordance with KRS 424.220.

Criteria: The City is required to follow KRS 424.220.

Cause: Employees staffing transitions and inadequate communication between City departments.

Effect: Noncompliance with Kentucky Revised Statutes.

Recommendation: The City should review publication requirements in the KRS among the various City Departments head to ensure the City is compliant.

Status: There is a similar finding in the current year.

Section III – Federal Award Findings and Questioned Costs

No findings in the prior year.