

**CITY OF WINCHESTER**

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

**FOR THE YEAR ENDED JUNE 30, 2017**

**CITY OF WINCHESTER, KENTUCKY  
JUNE 30, 2017**

---

**TABLE OF CONTENTS**

<b>PROFILE OF GOVERNMENT</b> .....	<b>1-2</b>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	<b>3-5</b>
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b> .....	<b>6-30</b>
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b> .....	<b>31-32</b>
STATEMENT OF NET POSITION .....	31
STATEMENT OF ACTIVITIES.....	32
<b>FUND FINANCIAL STATEMENTS</b> .....	<b>33-43</b>
BALANCE SHEET — GOVERNMENTAL FUNDS .....	33
RECONCILIATION OF THE BALANCE SHEET — GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION .....	34
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS .....	35
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	36
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS .....	37-38
STATEMENT OF NET POSITION—PROPRIETARY FUND (COMPONENT UNIT) .....	39
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—PROPRIETARY FUND (COMPONENT UNIT) .....	40
STATEMENT OF CASH FLOWS—PROPRIETARY FUND (COMPONENT UNIT).....	41
STATEMENT OF FIDUCIARY NET POSITION—FIDUCIARY FUND .....	42
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUND .....	43
<b>NOTES TO THE FINANCIAL STATEMENTS</b> .....	<b>44-85</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b> .....	<b>86-88</b>
SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES .....	86
COST-SHARING DEFINED PENSION TRUST SCHEDULES & NOTES .....	87
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	88
<b>OTHER SUPPLEMENTARY INFORMATION</b> .....	<b>89-91</b>
COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS .....	89
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FUNDS .....	90
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	91
<b>SINGLE AUDIT REPORTS</b> .....	<b>92-98</b>
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	92-93
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE.....	94-95
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	96-97
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS .....	98

**CITY OF WINCHESTER, KENTUCKY**  
**JUNE 30, 2017**

---

**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 18,368 (2010 census).

The City of Winchester elected to operate under the City Manager plan 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 is 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 day-to-day operations of the City. The City Manager supervises Administration, which consists of the Legal, City Manager, Finance, Planning, Main Street, Engineering, and Administration departments. He also supervises the Central Communications, Police, Fire, Emergency Services (EMS), and Public Works departments. (The City of Winchester provides county-wide services, by agreement with the county, for Dispatch and EMS.)

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 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 7, 2017.

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.

**CITY OF WINCHESTER, KENTUCKY  
JUNE 30, 2017**

---

**OTHER INFORMATION**

**Emergencies**

The City did not declare a state of emergency during FY2017.

**Elected Officials**

Mayor Ed Burtner was re-elected in 2014. The Commissioners were re-elected in 2016 - Rick Beach, Kenny Book, Shannon Cox, and Kitty Strode

**Retirements**

The City recognized five retirements this past year.

1. Joe Tincher, Engineering Technician, retired after 12 year of service.
2. James Townsend, Firefighter III/EMT, retired after 16 years of service.
3. Matthew Brinegar, Firefighter III/EMT, retired after 20 years of service.
4. Daniel Gurecky, Fire Lieutenant/Paramedic, retired after 20 years of service.
5. Douglas Hopper, Public Works Operator II, retired after 40 years of service.

**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 Kenny Book  
Commissioner Rick Beach  
Commissioner Shannon Cox  
Commissioner Kitty Strode

## **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

---

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, 2017, 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, 2017, 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 6-30, the single employer defined pension trust schedules and notes on page 86, and the cost-sharing defined pension trust schedules and notes on pages 87-88 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 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 16, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Winchester, Kentucky's internal control over financial reporting and compliance.

*Summers, McCrary & Sparks, PSC*

Winchester, Kentucky  
January 16, 2018

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

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. This narrative is intended to disclose any known significant events or decisions that affect the financial condition of the City. In addition, supplementary information has been included that we hope will help our citizens understand the City's operations.

**EXECUTIVE SUMMARY**

We at the City continually strive to serve the citizens of this community. 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.

Money is 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 must be noted, however, that about 75% of general fund expenses are in the form of manpower (personnel costs) and that most of these personnel costs relate to public safety.

The City makes every effort to hire and retain qualified people who deliver services to our citizens. To insure these services, employee wages and benefits are a vital component of the city's financial operations. Personnel costs include wages, taxes, retirement, and insurance. The City granted a 2% cost-of-living (COLA) for FY2015, FY2016, FY2017 and FY2018. The City's self-insured employee health insurance plan continues to help manage the city's health care costs and keep those benefits on a sustainable level to protect both taxpayers and employees.

Retirement costs are mandated by the state. These rates are what the City pays on employee wages to the state-run retirement system (CERS-County Employees Retirement System). Employer contribution rates for FY2019 have been set. The table below shows how these rates have been changing:

<b>CERS RATES</b>		
	<u>Non-Hazardous</u>	<u>Hazardous</u>
FY2019	28.05%	47.86%
FY2018	19.18%	31.55%
FY2017	18.68%	31.06%
FY2016	17.06%	32.95%
FY2015	17.67%	34.31%
FY2014	18.89%	35.70%
FY2013	19.55%	37.60%
FY2012	18.96%	35.76%
FY2011	16.93%	33.25%
FY2010	16.16%	32.97%

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

The total the City paid for retirement costs in FY2017 was approximately \$2 million. We estimate that retirement costs in FY2018 will be about \$2.4 million. These costs affect the goods and services that the City purchases to provide public services. The City, like any person or business, must pay for the things we use every day and the services that we have to buy from someone else. Some of the things we use every day are evident (paper, computers, uniforms, vehicles). But other things are not seen, like paying for gasoline or electricity. What is important, though, is that these costs are also increasing.

**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 include basic services, such as general administration, police, fire, and public works. Payroll taxes, insurance premiums taxes, property taxes, licenses, and state and federal grants finance most of these activities. Business-type activities include 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.

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 and liabilities is reported as net assets. 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 can give us 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.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

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.
- 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 in the short term, as well as what remains for future spending.
- 3) The fiduciary funds statements provide financial information about the local Winchester Policemen's and Firemen's Pension Fund and an agency fund. 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.

Following the fund financial statements are *Notes to 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.

Following the notes is the required supplementary information about the local pension fund (fiduciary fund) and the cost-sharing plan 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.

**FINANCIAL HIGHLIGHTS**

**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.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

The following table summarizes the Statement of Net Position as of June 30, 2017 and 2016:

**Table 1  
Net Position  
June 30,**

	<b>Governmental Activities</b>	
	<u><b>2017</b></u>	<u><b>2016</b></u>
Current and other assets	\$ 11,296,869	\$ 10,522,034
Capital assets	15,085,794	14,293,797
Total assets	26,382,663	24,815,831
Deferred Outflows-Pensions	4,488,787	3,492,951
Long-term debt outstanding	2,306,438	1,620,648
Net pension liabilities	19,856,049	18,440,596
Other liabilities	1,404,654	1,056,005
Total liabilities	23,567,141	21,994,364
Deferred Inflows-Pensions	471,730	-
Net position:		
Net investment in capital assets	12,779,356	12,673,149
Restricted	1,133,670	921,806
Unrestricted	(7,080,447)	(7,280,536)
Total Net Position	\$ 6,832,579	\$ 6,314,419

Total Assets increased \$1,566,832.

Current and Other Assets increased about \$774,835. Cash increased \$502,041. General Fund cash decreased \$52,892. However, Capital Equipment cash increased \$396,674. This was due to \$400,000 loan proceeds for a fire pumper truck not spent as of June 30. Other Funds cash increased \$158,350. Accounts Receivable increased by \$459,402. A big portion of this was an increase of \$109,200 in Payroll Tax Receivable and \$180,000 in EMS Revenue Receivable.

Capital assets increased \$792,000. Part of this increase includes the completion of the fire rear mount aerial apparatus of \$790,164. The addition to capital assets includes:

1. Maple/Boone storm water projects
2. Community Splash Pad
3. Washington/Franklin Avenue storm water project of
4. Lykins Park Trail
5. Sphar Building

However, total spent on capital assets was \$2,625,625. Depreciation was \$1,370,407. We retired \$235,059 in assets. So we had a loss of \$181 ending balance in net capital assets.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

The remaining includes departmental additions (vehicles, self-contained breathing apparatus, two ambulance re-mounts, and equipment).

Net Investment in Capital Assets increased about \$106,200 with the additional fixed asset purchases that exceeded depreciation expense. These additional fixed assets include computer and radio equipment for Communications; computers, vehicles, and equipment for Police; rear-mount aerial apparatus, self-contained breathing apparatus, vehicles, and equipment for Fire; two ambulance re-mounts and equipment for Emergency Medical Services (EMS); and heavy-duty vehicles and equipment for Public Works.

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

1. Fulton Road
2. Seventh Street
3. Mast Arms project at Broadway and Main Street
4. Maple Street storm sewer project construction
5. TEA-21 Sphar Building Rehabilitation
6. Lykins Park Trail
7. Community Splash Pad

Long-term Debt Outstanding increased \$685,790 because we added three capital leases (fire aerial apparatus, SCBA's, and two ambulance re-mounts) late in the fiscal year and paid off the FY2010 Velocity Pumper Fire Truck.

In FY 2017, the net pension liability for the CERS system increased by \$1.415 million. The liability for the Winchester single-employer plan for the Policemen's and Firemen's Defined Benefit plan also increased because the City is not contributing the actuarially required contribution. The amounts listed below for the deferred outflows of resources and net pension liability 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 which are detailed in the following table:

<u>Describe</u>	<u>CERS</u>	<u>P&amp;F</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$4,351,339	\$123,230	\$4,474,569	\$1,596,934
Deferred Inflows	\$471,730	\$0	\$471,730	\$0
Net Pension Liability	\$18,766,008	\$1,090,041	\$19,856,049	\$5,999,576
Pension Expense	\$797,678	\$132,930	\$930,608	\$469,861

The City's unrestricted net position decreased because of the increase in the net pension liabilities. The deficit position reflects the city's responsibility to provide future resources to fund the pension liabilities.

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 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*.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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

The following table summarizes the Statement of Activities for 2017 and 2016:

**Table 2  
Operating Results for the Year Ended June 30,**

	<b>Governmental Activities</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Revenues:		
Program revenues:		
Charges for services	\$ 1,211,283	\$ 1,417,632
Grant funding	2,107,023	1,855,199
Capital contributions	1,173,496	1,026,043
General revenues:		
Property taxes	2,374,881	2,371,164
License fees and permits	1,086,639	1,005,936
Payroll taxes	9,033,316	8,459,226
Insurance premium tax	2,348,985	2,264,691
Transient room tax	134,776	135,840
Other taxes	116,317	116,325
Interest and investment earnings	81,486	55,757
Parking fines	980	1,530
Other local revenues	290,213	385,599
Total Revenues	19,959,395	19,094,942
Program Expenses:		
General government	3,951,077	4,003,353
Public Protection		
Dispatch	1,143,795	1,197,274
Police	4,280,887	4,088,150
Fire	4,814,434	4,527,191
EMS	2,469,369	2,608,852
Public Services	1,760,385	1,735,127
Intergovernmental services	974,538	955,369
Interest on long-term debt	70,295	73,597
Total Expenses	19,464,780	19,188,913
Excess (deficiency) before transfers and special items	494,615	(93,971)
Gain on disposal of fixed assets	23,545	122,013
Net increase (decrease) in net position	\$ 518,160	\$ 28,042

Total Revenues increased \$864,453. Payroll taxes and insurance premium taxes had the largest increases. Charges for Services decreased \$206,349. Most of this decrease was in EMS Revenue. We had changed the billing company the previous year and there were not as many emergency ambulance transports. However, this revenue has increased in FY2018. Grant Funding increased \$251,824. Some of this increase is due to FEMA AFG grant for the fire apparatus, but was offset by decreases in other grants. Also, we did not accept any streets in FY2017.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

Capital Contributions increased \$147,453 mainly from the Federal Emergency Disaster Assistance to Firefighter's Grant for the aerial apparatus.

General Revenues increased \$671,525. Although some revenues increased and some decreased, the most notable were:

1. \$574,000 increase in Payroll Taxes
2. \$84,294 increase in Insurance Premium Taxes
3. \$88,646 increase in Electric and Gas Franchise Fees

The payroll taxes increased because of a better economy, industrial expansion, and more jobs in the community. Insurance premium taxes can be attributed to several reasons: higher premiums; more property owners; economy. Electric and gas franchise fees increased but this is due to weather conditions.

Total expenses increased only \$275,867. General Government expenses decreased \$52,288. Public Protection increased \$340,497. Public Services increased \$25,258. Some employee positions were not filled, this affected personnel numbers.

The following table summarizes the Governmental Funds Balance Sheet for 2017 and 2016:

<b>Governmental Funds Balance Sheet</b>			
<b>June 30,</b>			
	<u><b>2017</b></u>		<u><b>2016</b></u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 8,916,470	\$	8,409,429
Accounts Receivable	2,419,834		2,118,155
Prepaid Expenses	7,363		7,344
Total Assets	\$ 11,343,668	\$	10,534,928
<b>Liabilities:</b>			
Accounts Payable	\$ 162,679	\$	173,273
Accrued Payroll & Related Liabilities	274,384		732,896
Accrued TIF Incentive Payable	64,843		90,288
Due to Other Funds	46,798		12,893
Total Liabilities	548,705		1,009,350
<b>Fund Balances:</b>			
Nonspendable			
Restricted	1,133,670		921,806
Committed	3,115,452		2,750,295
Assigned	758,469		1,390,445
Unassigned	5,787,371		4,463,031
Total Fund Balances	10,794,962		9,525,578
Total Liabilities & Fund Balance	\$ 11,343,668	\$	10,534,928

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

Cash and Cash Equivalents increased \$502,041. General Fund cash decreased \$52,892. Other Funds cash increased \$158,350. However, Capital Equipment cash increased \$396,674. This was due to \$400,000 loan proceeds for a fire pumper truck not spent as of June 30.

Accounts Receivable increased by \$441,680 as mentioned before in the Statement of Net Position. A big portion of this was an increase of \$109,200 in Payroll Tax Receivable and \$180,000 in EMS Revenue Receivable.

Current Liabilities decreased \$320,645, including decreases in accounts payable of \$10,594 and accrued payroll of \$458,572. Due To Other Funds increased \$33,905. Part of this is \$35,000 due from Capital to General is for a Fiscal Court Dispatch reimbursement.

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. 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 – capital equipment fund and public safety special projects
- Assigned – self-insurance fund for health care benefits.
- Unassigned – residual balance in General Fund

Restricted funds increased \$211,864, representing additional funds for Municipal Road Aid and obligations for a grant project that has not been completed. (Sphar Building Rehabilitation).

Committed funds increased \$365,157. Capital Equipment Fund increased \$372,226. The Police Special Fund increased \$86,900. Other funds decreased. The largest decrease was in the Federal Forfeiture Fund, \$79,700. This was due to decreased revenue and increased expenditures.

Assigned Funds decreased \$631,976. The amount shown, \$768,469 is the self-insured health insurance funds. Self-insured health insurance increased \$216,624 (from \$551,845 to \$768,469). FY2016 Assigned Funds had included self-insured health insurance of \$551,845 and a budget shortfall of \$838,600. There is no shortfall included in the FY2017 Assigned Funds.

Unassigned Fund Balance (General Fund) increased \$1,324,340, due to the current year surplus of \$692,365 and a reduction in the prior year assigned fund balance.

**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. Results of operations are very similar to the statement of activities—in the current year, revenues increased enough to cover expenses.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2017 and 2016:

	<b>Governmental Activities</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>REVENUES:</b>		
Taxes	\$ 14,008,276	\$ 13,347,248
Licenses & Permits	1,086,639	1,005,936
Charges for Services	1,211,283	1,417,633
Fines	980	1,530
Intergovernmental	3,280,517	2,881,242
Investment Income	81,486	55,757
Other	290,213	385,599
<b>TOTAL REVENUES</b>	<b><u>19,959,393</u></b>	<b><u>19,094,944</u></b>
General Government	3,214,273	3,073,568
Public Safety	11,490,626	11,623,259
Public Works	1,632,348	1,510,965
Intergovernmental	974,538	955,369
Capital	2,017,444	1,847,853
Debt service principal	354,198	293,490
Debt service interest	70,295	73,597
<b>TOTAL EXPENDITURES</b>	<b><u>19,753,723</u></b>	<b><u>19,378,100</u></b>
Excess (Deficit) of Revenues over Expenditures	<u>205,670</u>	<u>(283,156)</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Proceeds from long-term borrowing	1,039,988	149,927
Gain/loss on sale of capital assets	23,727	220,285
Operating transfers in	40,164	559,836
Operating transfers out	(40,164)	(559,836)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b><u>1,063,715</u></b>	<b><u>370,212</u></b>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	1,269,385	87,056
Fund Balance, beginning	9,525,577	9,438,521
Fund Balance, ending	<b><u>\$ 10,794,962</u></b>	<b><u>\$ 9,525,577</u></b>

The difference between revenues and expenses shows how total fund balance has changed since last year. Total fund balance increased \$1,269,386. General Fund provided an operating surplus of \$832,364 (this includes the health self-insurance funds).

The Capital Equipment Fund surplus was \$232,226. The non-major Fund balance increased \$204,795, mainly for two funds. The Police Special Project Fund Surplus increased \$86,886 and the Federal Grant Fund surplus increased \$111,342.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

Capital and Operating Activities

The following table separates capital revenues and expenditures from operating to highlight the results for each major category and demonstrates that operating revenues are finally recovering sufficient to finance the City's increasing costs of services:

	<b>FY 2017 Governmental Activities</b>			
	<b>Capital</b>		<b>Operating</b>	<b>Total</b>
Revenues	\$ 2,383,597	\$	18,679,674	\$ 21,063,271
Expended	(2,011,371)		(17,782,515)	(19,793,886)
Net	<u>\$ 372,226</u>	<u>\$</u>	<u>897,159</u>	<u>\$ 1,269,385</u>

	<b>FY 2016 Governmental Activities</b>			
	<b>Capital</b>		<b>Operating</b>	<b>Total</b>
Revenues	\$ 1,018,066	\$	18,447,091	\$ 19,465,157
Expended	(1,324,268)		(18,053,832)	(19,378,100)
Net	<u>\$ (306,202)</u>	<u>\$</u>	<u>393,259</u>	<u>\$ 87,057</u>

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance). This revenue increased but excludes the proceeds from long-term borrowing, the gain on sale of capital assets, and operating transfers out. Capital revenues increased \$1,365,542. This year's EMS reimbursement was higher because of an increase in expenses. Capital expenses increased \$687,103, mainly for the purchase of self-contained breathing apparatus and two ambulance re-mounts.

Operating revenues increased \$232,583, mostly due to increases in the payroll tax, insurance premium tax and, EMS revenues. As stated before, increases in the payroll tax and insurance premium taxes are the result of a better economy. However, EMS revenue decreased \$194,542 due to the change in the billing company and fewer ambulance transports.

Operating expenses decreased \$271,317, mainly due to the firefighters settlement paid in the prior year.

**BUDGETARY HIGHLIGHTS**

This section explains significant changes between the original and final adopted general fund budget. The Schedule of Revenues, Expenditures, Changes in Fund Balance Budget-To-Actual financial reports begin on Page 37 with reports for the General Fund and Capital Equipment Fund, a major special revenue fund.

Actual General Fund revenue exceeded budget estimates by about \$438,731. Payroll taxes exceeded budget by \$373,181. Tax revenues exceeded budget by about \$561,600 as more jobs were added to the local economy. Insurance Premium taxes exceeded budget by about \$164,700.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

These budget amounts were very conservative because projecting revenues are difficult due to several factors (economy, jobs, weather, etc.). License and Permits exceed budget by \$106,639. These increased revenues were offset by decreases in other revenues.

Most of the General Fund under-budget revenue difference (under budget by \$1,663,250) can be attributed to:

1. Ad Valorem Tax under budget by \$93,566
2. PILOT Catalent under budget by \$272,600 (total county-wide revenue was budgeted but should have been just our portion (\$43,397)
3. Reimbursable Grant Income under budget (\$105,500)
4. EMS Revenue under budget (\$266,487)

Public Works expenses came in under budget because three projects had not been done (TEA-21 Grant, \$200,000; Sphar Building city match \$50,000; and Land and Water Conservation Grant \$75,000). At year end, reimbursable grants revenue and expenses are transferred to federal, state, and local grant financial statements.

Every department came in under budget. Some of this is attributed to personnel. The Planning, 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 all the time. That was not the case, but it is how the budget is prepared.

In the Capital Equipment Fund, Other Income came in under budget by about \$1,240,015. Loan proceeds of \$1,039,988 are listed as one of these Other Income budget revenues. However, on the Budget-To-Actual table, the revenue is listed as Proceeds from Long-Term Debt.

Capital Equipment Fund expenses were under budget by \$2,163,592.

1. Special Projects was under budget. The splash pad was budgeted for \$250,000 but nothing was spent. The stormwater/storm sewer was budgeted for \$595,400 but only \$344,580 was spent.
2. The Fire Department was under budget, mainly for the fire truck not received.

The City approved three budget amendments to add revenues and appropriations for additional revenues, expenses, and grants awarded during the fiscal year. The following list includes the major amendments.

The first budget amendment added the following:

1. Added \$27,000 to GF Commission for the Fiscal Court revenue sharing.
2. Added \$20,000 to GF Finance expenses for temporary services.
3. Added \$11,000 to GF Fire Department for additional due on Firefighter Overtime settlement.
4. Added \$33,400 for GF Transfers.
5. Added \$220,000 in Capital Loan Proceeds revenue for pumper truck.
6. Added \$31,000 in Capital Police Department for equipment.
7. Added \$400,000 for Capital Fire Department for additional SCBA's.
8. Added \$191,000 in Capital EMS Department for ambulance remounts.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

The second budget amendment added the following:

1. Added \$150,000 to GF Commission for additional revenue sharing and economic incentive projects.
2. Added \$388,000 to GF all department for additional salaries and wages
3. Added \$292,000 to GF for accrued health insurance benefits.
4. Added \$7,000 to GF Finance for temporary services.
5. Added \$30,000 to GF Administration for additional insurance.
6. Added \$111,000 to GF Fire for interest on the firefighter overtime settlement.
7. Added \$15,100 to GF Transfers for Parks and Recreation.
8. Added \$183,500 to Capital for additional equipment and principal on two leases.
9. Added \$14,500 to Other Funds for additional police expenses.

The third budget amendment corrected the GF Estimated Revenues.

**LONG-TERM DEBT**

The City finances a variety of equipment purchases with capital lease financing. During FY 2017, two ambulances were refurbished with remounts, financed with a capital lease of \$239,988. The City purchased 52 SCBA's, financed with a capital lease of \$400,000 and \$45,000 cash. The City purchased a fire rescue pumper, financed with a capital lease of \$400,000. In addition, we are paying \$27,000 in cash. In FY2016, the City received \$190,000 for insurance on a wrecked fire truck. This new truck replaced the wrecked one. A 2010 lease for a fire pumper truck was paid off in FY2017. The ending balance of all capital leases was \$1,127,644 as of June 30, 2017. More information about long-term debt is explained in Note 8 of the Notes to the Financial Statements.

**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.

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.

**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. During FY2017, the City was working on the following capital projects to enhance public programs and services.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

Buildings and Land

In FY2017, the City made various improvements/repairs to City Hall, the Police Department building, three Fire stations, and the Public Works buildings at a total cost of about \$83,120.

The City sold property at 31 East Broadway Street (Jordan Building) for \$23,727 (Order No. 2017-6. The building had been used to store Parks & Recreation items. The building was deteriorating. A taxpayer offered to buy the building. She is in the process of restoring the building, with tuck pointing, new roof, and stained glass windows. She plans to open a distillery, brewery and sell Kentucky Proud products.

The City acquired 37 Sixth Street Parcel 1 and 942 Muddy Creek Road Parcel 2 by donation. Order No. 2016-136 authorized the disposition of the property. The sale of the property was bid out and will be sold January, 2018.

Curbs, Gutters, Sidewalks, Other

The "Other" project is the Eugene Gay Outdoor Pool. The pool had deteriorated and could not be repaired. In FY2015, the pool was demolished at a cost of \$19,800. We received \$10,000 from the Clark County Attorney and \$10,000 from the Bluegrass Area Development District for the demolition. The City contracted with Bravura for the engineering and design for a splash pad. Engineering cost to date is \$17,703. The City has pledged \$250,000 in matching funds. Parks and Recreation is now in the process of fundraising.

Storm Sewer Projects

In 1992, the City of Winchester recognized that its storm sewer infrastructure system was beginning to show signs of deterioration. The City spent \$5,828 for minor storm drain repairs. As of June 30, 2017, \$2,488,800 has been spent to replace and/or restore existing storm sewers (including the projects listed below).

The City and WMU have known about the problems with the Maple Street sanitary sewer. On July 16, 2013, the Commission approved Order No. 2013-110 to execute a Memorandum of Understanding (MOA) with WMU for the Maple Street Sanitary and Storm Sewer Water Improvement Project. The City would reimburse WMU for the engineering and construction costs related to the storm sewer portion of the project. On September 30, 2013, the City approved Order #2013-143 to execute a Memorandum Of Understanding to pay \$48,356.25 to WMU for engineering costs related to the project.

The project was bid out and approved for construction on November 17, 2015. Construction began April, 2016 and finished October, 2017. The total engineering and construction costs for the project were \$522,741.

The Washington-Franklin Avenue storm sewer project was finished in FY2017. The total cost of this project was \$125,906 for engineering and construction.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

Roads and Bridges

The City street system consists of approximately 80 miles of two-lane paved roads and alleys. The City also contains some state roads and it is the state's responsibility to maintain those roads. The City uses Municipal Aid Program Funds (from the state) to maintain city streets. The City spent \$391,982 to maintain city streets.

The City approved Order No. 2017-70 to authorize the paving of the accepted portions of the unfinished roadway and incomplete curbs in Fairholme Estates.

The City accepted (by Order No. 2016-12 amending Order No. 2015-28) portions of Croxton Way and Hospital Drive into the City street system for maintenance and repair (Order No. 2017-7). It is City policy to accept streets into the system on the condition that the developer is responsible for repairs to the streets for one year following acceptance.

*KY Department of Transportation JL-04 Bond Fund*

In FY2011, the City applied to the Kentucky Department of Transportation (KDOT) for JL-04 bond funds for three projects: (1) Fulton Road Extension Project; (2) Seventh Street Relocation Project; and (3) Downtown Mast Arms. Contracts for the first two projects (engineering) were awarded in 2011.

The state approved \$585,000 for the Fulton Road project – design, right-of-way acquisition, and utility relocation. State and city engineers are currently working on the plans and land acquisition for the Fulton Road Extension Project. Total costs so far are \$152,995.

The state had approved \$240,000 for the Seventh Street project – design. The Seventh Street project costs so far to date are \$237,969.

Phase 1 of these two projects are complete. Both of the above projects are on hold pending a new Highway Plan by the Kentucky General Assembly to be in session January, 2018.

On April 15, 2014, Order No. 2014-25 was approved with the Kentucky Department of Transportation (KDOT) for \$160,000 to construct a downtown mast arm project at Main Street and Broadway. An engineering contract was approved July 15, 2014. The City approved Order No. 2017-27 for construction, which began June, 2017. The project was finished December, 2017.

Franchise

The Kentucky Utilities current franchise agreement expired in 2015, and was subsequently renewed. The Columbia Gas franchise agreement expired in 2017 and is in the process of being renewed.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

Annexation

The City annexed approximately 70 acres of land located on the west side KY627 and east of the CSX railroad (Ordinance No. 3-2017) adjacent to the Industrial Park. Infiltrator Water Technologies had asked for the annexation for an expansion of its facility, which they subsequently purchased. Construction should begin in 2018.

Land Improvements

There were no major land improvements in FY2017.

**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 five local participation agreements – Alltech, 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. We have an agreement with the WCC-IDA to repay this \$250,000 to the Authority over a five-year period. The start date on this grant is February 28, 2013 and the end date is November 30, 2017.

Community Development Block Grants (CDBG) are federally funded low-interest loans made available through the Department of Local Government. We finished a CDBG grant (\$621,000 Disaster Recovery) in FY2016.

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.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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
Alltech Inc	KBI	\$14,000,000	\$3,000,000	NA	40	Reso #R2012-6 6/19/2012 Term 10 yrs	1%	6/28/2014
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 Distributing	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%	1/1/2016
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

**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 six 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.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

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
Total Payments to Date	\$146,496

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.

On May 6, 2014, by Ordinance No. 6-2014, the City and Fiscal Court re-defined the terms of the agreement and added the George Rogers Clark High School area. The term for the hospital areas is the same (15 years) as the original ordinance. The effective date did not change. However, the split is now 63/37. The term for the high school was five years beginning January 1, 2014 and the split is 70/30. The term for the high school will end December 31, 2018.

On December 2, 2014, by Ordinance No. 18-2014 the inter-local agreement was amended to add three elementary schools. These three rural schools, Pilot View Elementary, Trapp Elementary, and Providence Elementary were closed during 2013 and absorbed into the existing schools within the City limits. The effective date for the elementary schools is July 1, 2014 for three years.

The elementary school revenue sharing is based on \$53,267 average payroll taxes. In year one, the City/County share was 50%. In year two it was 60/40 percent. In year three it was 67/33 percent. This part of the agreement ended June 30, 2017.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

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
Total Payments to Date	\$1,405,968

**ECONOMIC DEVELOPMENT**

The City has been fortunate in the development of the Industrial Park on the north side of town. The Winchester/Clark County Industrial Development Authority (WCC-IDA) oversees development of the Park. WCC-IDA is funded by the City and the County. The Industrial Park development began in 1980. Phase VI provided an additional 300 acres to be used for development. Approximately \$2.4 million of infrastructure improvements (water and sewer lines) were installed in the Phase VI development. The next phase was the construction of a bridge over the CSX tracks on Van Meter Road. It provides better access to the Bluegrass Community & Technical College (BCTCS) and another route for industrial traffic.

The BCTC Winchester-Clark County Campus continues to add value to our community. The college provides workforce training for companies in Clark and surrounding counties. Over 377 students were enrolled during the fall of 2016. The college offers the 1+1 Integrated Engineering Technology program which provides one year of college classwork in high school and one year of college classwork after graduation to obtain an associate's degree in industrial maintenance.

The college offers two associate degrees and four technical programs. The college also provides instruction and testing for people pursuing their General Education Diploma (GED). The college has an on-sight childcare facility, a 600-seat outdoor amphitheater, and a walking trail.

We have several businesses/manufacturers that operate in the City and continue to thrive. The following companies (outside of the industrial park) employ almost 1,700 people:

1. AHC Products & Packaging
2. Ale-8-One Bottling Company
3. Apollo Oil & Warehouse
4. Gate Bluegrass Precast
5. General Dynamics
6. Harry Gordon Steel
7. Johnson Controls, Inc.
8. Kentucky Fertilizer (Caudill Seed)

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

9. Leggett & Platt
10. Pepsi-Cola Bottling Company
11. The Freeman Corporation

With almost 1/3 (31%) of the jobs in Clark County being in the manufacturing industry and 36% of the total wages paid in Clark County coming from manufacturing, the City of Winchester recognizes and appreciates the fact that stability and growth of industry is key to the overall economic well-being of Winchester and Clark County.

Economic development continues to increase. However, Osram Sylvania announced that they would cease operations in the fall of 2017. This closure lost about 50 jobs. We began the fiscal year with a 4.9% unemployment rate and ended the fiscal year with a 5.3% unemployment rate. Our per capita income is about \$37,244 and household income is about \$47,959 (2015 statistics).

Since 2005, 19 new companies have moved to our community. These new companies, along with 36 existing industry projects have invested over \$360 million in existing/additional building for their businesses. Over 3,000 jobs and nearly \$90 million in new annual payroll for employees exist today because of that investment.

One new restaurant opened and another is under construction. Other restaurants are exploring the possibility of building in Winchester. One bank is moving its operations to a new site (to be the branch) and re-built its branch to be the main bank. The new site is going to be a much-needed improvement in that area.

We have been involved with the Bluegrass Alliance and Kentucky United to further promote and market our specific region to companies and site-selection committees. We have continued to invest in economic development with great results. New companies, new investment, and new jobs have all contributed to the stabilization of our local economy and future growth. We will continue efforts throughout the community to put people back to work.

### **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.

Sav-A-Lot completed an additional 50,000 square feet expansion and added 20 new jobs. The Industrial Park includes the following companies and employs over 2,900 people:

1. Advanced Green Components (AGC)
2. Ainak

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

3. Alltech
4. Amazon
5. Arrow Metal
6. AT&T Routing Center
7. Brake Parts
8. Catalent Pharma Solutions
9. CAKY (Community Alternatives of KY)
10. City of Winchester Fire Station #3
11. Clark County Extension Office
12. Contech Construction Products
13. Custom Cylinders International
14. God's Pantry
15. Hogan Motor Leasing
16. Infiltrator Systems, Inc.
17. J & T Munitions, Inc., dba J & T Distributing
18. Kentucky Bluegrass Community and Technical College
19. Kentucky Heat Treating
20. Kraft Brothers
21. Man-Sea Metal
22. Precision Mechanical
23. Reidy Medical Supply
24. Royal DSM (formerly Martek Biosciences)
25. Rocky Mountain ATV
26. Saunier Moving & Storage
27. Sav-A-Lot
28. Sekisui S-LEC America, LLC
29. Senko (USA Inc.)
30. Serv-Pro
31. Sonoco
32. TAICA North American Corporation
33. Univance
34. Valeo Miles (formerly Niles Wintech)
35. Walle Corporation
36. Winchester Coatings
37. Winchester Farms Dairy

**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 FY2017, the City applied for several grants. Listed below is the status of grant applications.

1. CDBG – Lincoln Street Redevelopment Project, pending
2. KY Homeland Security Grant cyber security software, \$17,019, approved
3. Kentucky Homeland Security Grant, Unknown Chemical Identification Monitor, \$95,000, approved
4. Kentucky Homeland Security Grant, Haz-Mat Trailer, \$98,000, denied
5. FEMA Assistance to Firefighters Grant, three additional personnel, \$359,018, approved

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

6. FEMA Assistance to Firefighters Grant, \$427,500, fire engine, pending
7. FEMA Assistance to Firefighters Grant, Regional Grant for SCBA's, denied
8. Kentucky 911 Services Board, PowerPhone Emergency Medical Dispatch Software, \$60,783, pending
9. Kentucky Fire Commission, Multi-purpose Training Facility, \$100,000, pending, subsequently approved

The following grants were received prior to FY2017 and are still ongoing:

1. Transportation Enhancement Act 21 (TEA-21), Welcome Center Revitalization for the Sphar & Company Seed Building, \$1 million (in design phase)
2. Kentucky Department of Local Government Recreational Trails Program, \$55,530
3. Kentucky Department of Local Government, Winchester Youth Soccer Complex Restroom/Concession Project, \$75,000

Three grants were completed and closed out during FY2017:

1. Kentucky Nonpoint Source Pollution Control Grant, Lower Howard's Creek Watershed Improvement Initiative, \$303,709 (60/40 match)
2. Kentucky Homeland Security Grant, Cyber Security Software, \$25,000
3. Assistance to Firefighters Grant, Tower Ladder Fire Apparatus, \$1 million, Local Match \$100,000

**STORMWATER CONCERNS**

The United States Environmental Protection Agency (EPA) requires Kentucky to issue permits for MS4 (Municipal Small Separate Stormwater System) projects to protect water quality. Winchester is a Phase II community. The Kentucky Division of Water (KDOW) issued our first NPDES (National Pollution Detection Elimination System) permit September 2003. Our second NPDES permit was issued April 2010. The City is waiting for the third NPDES permit to be approved. On March 21, 2017, the annual report was presented to the City Commission by the Stormwater Coordinator/Code Enforcement Officer.

The permit requires municipalities to implement control measures or MCM's. The City successfully implements the MCM's each year and submits an annual report on the progress of each MCM, which then undergoes an annual audit as well.

The city has two employees designated to carry out the requirement of the stormwater programs. They have:

1. Conducted training
2. Conducted field pre- and post- inspections of construction sites
3. Surveyed for illicit discharges
4. Educated the community on stormwater pollution prevention
5. Involved the community in stormwater pollution prevention through stream clean-ups and storm drain stenciling
6. Installed plantings to help reduce stormwater flows

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

The City contracts with an engineering consulting firm for technical expertise and program support. The City is in compliance with all permit requirements at this time. The following ordinances have been adopted as part of the MS4 permit requirements:

1. Ordinance #5-2011 Stating the Erosion Prevention and Sediment Control Requirements, March 15, 2011
2. Ordinance #9-2011 Establishing Illicit Discharge, Determination, and Elimination Requirements, May 2, 2011
3. Ordinance #14-2011 Stating the Post Construction Stormwater Runoff Requirement, June 28, 2011
4. Ordinance # 10-2013 Relating to Erosion Prevention and Sediment Control Requirements, August 6, 2013

**OTHER DEVELOPMENT**

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 four 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 still underway. 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.

Five 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 business opportunities in that area. The City is very optimistic about new development surrounding the hospital.

The City finished the Depot Street Project four 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. We will receive additional funding from the Clark County Fiscal Court in the form of a \$500,000 CDBG grant (Resolution No. R2016-13 approved an agreement with the Clark County Fiscal Court for a CDBG Grant of \$500,000 for the Sphar Building Rehabilitation /Stabilization Project). The City and the Fiscal Court will each contribute \$50,000. This building is over 130 years old and will be re-purposed for a Winchester and Clark County Welcome Center. The building was purchased for \$100,000 with funds from the Greater Clark Foundation (which will provide another \$250,000).

The Daniel Boone Pioneer Festival has been in existence for 39 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.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

The City continues efforts to strengthen the downtown area. The Winchester First Board, 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 is due late 2017. The City had its 9th Beer Cheese Festival on June 10, 2017. This festival also highlights local talent, artists, and "Kentucky Proud" items. Winchester First also hosted free 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. Most of the downtown Main Street area is on the National Registry of Historic Places.

**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 will bring about balanced residential and business growth on the east side of Clark County.

Economic development continues to increase. We began the fiscal year with a 4.9% unemployment rate and ended the fiscal year with a 5.3% unemployment rate.

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 increased. Still, more people are working, which helps improve the City's tax base.

The City did not approve the maximum allowable real property tax rate for calendar year 2016. The rates were the same as the previous year. The FY2017 budget was based on the maximum allowable rate, so this revenue was under budget expectations.

Our taxes and fees are dependent upon the economy, but we cannot decrease our very important services that our citizens depend upon. It is our mission to provide the same level of service to our citizens as we have in the past.

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

During our FY2017 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2017, a 2% COLA was granted to employees. This was very important to our employees. We are a service organization and retaining qualified employees is essential for public safety and administration.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

Management is concerned about the following issues, which need to be addressed before governmental services are affected:

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.

There have been no changes in funding polices since the Commission approved a motion on May 19, 2004 to maintain a general fund balance at \$2 million.

Our economy continues to improve. However, the future of yearly COLA's, retirement costs, and health insurance costs will still be difficult. These are 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 our residents and visitors. Our mission is to provide our citizens with essential and important governmental services. We note that the Mayor and Commissioners' number one priority is bringing jobs back to our community and removing any barriers that are a hindrance to new or existing businesses. They have, and still are, working diligently toward that end.

**CONTACTING THE CITY'S FINANCIAL TEAM**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's financial position. We are dedicated to demonstrating our accountability for the money we manage on their behalf. The economic development information was provided by 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.

Debbie Bailey  
City Treasurer  
32 Wall Street, P.O. Box 4135  
Winchester, KY 40392-4135  
859-744-1660  
[dbailey@winchesterky.com](mailto:d Bailey@winchesterky.com)

Matthew Belcher  
City Manager  
32 Wall Street, P. O. Box 40  
Winchester, KY 40392-0040  
859-744-2821  
[mbelcher@winchesterky.com](mailto:mbelcher@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](mailto:jennifers@wmutilities.com)

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

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

---

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  
859-755-5627

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>PRIMARY GOVERNMENT</b>		<b>COMPONENT UNIT</b>
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>TOTAL</b>	
<b>ASSETS:</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 8,916,470	\$ 8,916,470	\$ 9,965,474
Restricted Cash and Cash Equivalents	0	0	327,498
Accounts Receivable			
Taxes	1,739,301	1,739,301	0
Accounts, net	316,774	316,774	1,963,957
Intergovernmental	316,961	316,961	0
Other	0	0	38,775
SDC Receivables	0	0	489,767
Prepaid Expenses	7,363	7,363	565,380
Accrued Interest	0	0	371
Inventories	0	0	418,432
<b>Total Current Assets</b>	<b>11,296,869</b>	<b>11,296,869</b>	<b>13,769,654</b>
<b>Restricted Assets</b>			
Cash and Cash Equivalents	0	0	13,823,996
<b>Total Restricted Assets</b>	<b>0</b>	<b>0</b>	<b>13,823,996</b>
<b>Noncurrent Assets</b>			
Construction in Progress	886,042	886,042	2,154,336
Land	2,152,683	2,152,683	1,519,050
Net Capital Assets	12,047,069	12,047,069	111,396,193
<b>Total Noncurrent Assets</b>	<b>15,085,794</b>	<b>15,085,794</b>	<b>115,069,579</b>
<b>TOTAL ASSETS</b>	<b>\$ 26,382,663</b>	<b>\$ 26,382,663</b>	<b>\$ 142,663,229</b>
<b>DEFERRED OUTFLOWS OF RESOURCES-PENSONS</b>	<b>\$ 4,488,787</b>	<b>\$ 4,488,787</b>	<b>\$ 1,596,934</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 162,679	\$ 162,679	\$ 557,787
Accrued TIF Incentive Payable	64,843	64,843	0
Accrued Payroll & Related Liabilities	274,384	274,384	228,390
Customer Deposits	0	0	133,521
Accrued Interest Payable	0	0	92,377
Current Portion of Bonds	0	0	3,637,293
Incurred but Not Reported Health Claims	149,362	149,362	0
Current portion of Lease Obligations	404,737	404,737	0
<b>Total Current Liabilities</b>	<b>1,056,005</b>	<b>1,056,005</b>	<b>4,649,368</b>
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Lease Obligations	1,901,701	1,901,701	0
Noncurrent Portion of Bonds	0	0	62,277,629
Accrued Sick Leave	753,386	753,386	524,097
Net Pension Liability	19,856,049	19,856,049	5,999,576
<b>Total Noncurrent Liabilities</b>	<b>22,511,136</b>	<b>22,511,136</b>	<b>68,801,302</b>
<b>TOTAL LIABILITIES</b>	<b>23,567,141</b>	<b>23,567,141</b>	<b>73,450,670</b>
<b>DEFERRED INFLOWS OF RESOURCES-PENSONS</b>	<b>\$ 471,730</b>	<b>\$ 471,730</b>	<b>\$ 0</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	12,779,356	12,779,356	49,154,657
Restricted	1,133,670	1,133,670	0
Restricted for Capital Projects	0	0	12,178,161
Restricted for Bond Debt Service	0	0	1,824,529
Unrestricted	(7,080,447)	(7,080,447)	7,652,146
<b>TOTAL NET POSITION</b>	<b>\$ 6,832,579</b>	<b>\$ 6,832,579</b>	<b>\$ 70,809,493</b>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (3,951,077)	\$ 77,770	\$ 37,677	\$ 92,737	\$ (3,742,893)	\$ (3,742,893)	
Public Safety:							
Dispatch	(1,143,795)	0	630,527	9,267	(504,001)	(504,001)	
Police	(4,280,887)	0	209,323	25,000	(4,046,564)	(4,046,564)	
Fire	(4,814,434)	0	274,111	790,164	(3,750,159)	(3,750,159)	
EMS	(2,469,369)	1,133,513	493,442	161,910	(680,504)	(680,504)	
Public Works	(1,760,385)	0	441,443	94,418	(1,224,524)	(1,224,524)	
Intergovernmental Services	(974,538)	0	20,500	0	(954,038)	(954,038)	
Interest on Long-Term Debt	(70,295)	0	0	0	(70,295)	(70,295)	
Total Governmental Activities	<u>(19,464,780)</u>	<u>1,211,283</u>	<u>2,107,023</u>	<u>1,173,496</u>	<u>(14,972,978)</u>	<u>(14,972,978)</u>	
Total Primary Government	\$ <u>(19,464,780)</u>	\$ <u>1,211,283</u>	\$ <u>2,107,023</u>	\$ <u>1,173,496</u>	\$ <u>(14,972,978)</u>	\$ <u>(14,972,978)</u>	
Component Unit							
Winchester Municipal Utilities	\$ (16,293,169)	\$ 17,428,491	\$ 0	\$ 0			\$ 1,135,322
			General Revenues:				
			Taxes:				
			Property	\$ 2,374,881	\$ 2,374,881	\$ 0	0
			Licenses, Franchise & Permits	1,086,639	1,086,639	0	0
			Payroll	9,033,316	9,033,316	0	0
			Insurance Premium	2,348,985	2,348,985	0	0
			Hotel/Motel Room Tax	134,776	134,776	0	0
			Telecommunications Excise Tax	116,317	116,317	0	0
			Investment Income	81,486	81,486		132,405
			Parking Fines	980	980		0
			Gain (Loss) on disposal of fixed assets	23,545	23,545		28,487
			Other Local Revenues	<u>290,213</u>	<u>290,213</u>		<u>187,800</u>
			Total General Revenues	\$ <u>15,491,138</u>	\$ <u>15,491,138</u>	\$ <u>348,692</u>	
			Capital Contributions	0	0		643,309
			Change in Net Position	518,160	518,160		2,127,323
			Net Position June 30, 2016	6,314,419	6,314,419		70,170,773
			Prior Period Adjustment	<u>0</u>	<u>0</u>		<u>(1,488,603)</u>
			Net Position June 30, 2016- Restated	6,314,419	6,314,419		68,682,170
			Net Position June 30, 2017	\$ <u><u>6,832,579</u></u>	\$ <u><u>6,832,579</u></u>	\$ <u><u>70,809,493</u></u>	

See Auditor's Report and Accompanying Notes

## **FUND FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<b>GENERAL FUND</b>	<b>CAPITAL EQUIPMENT FUND</b>	<b>NONMAJOR GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 4,715,212	\$ 2,520,954	\$ 1,680,305	\$ 8,916,470
Accounts Receivable				
Taxes (net of allowance for doubtful accounts \$38,464)	1,739,301			1,739,301
Accounts, Net of allowance for doubtful accounts (\$536,988)	316,774			316,774
Intergovernmental	221,641	32,059	63,261	316,961
Other				
Due from Other Funds	35,000	11,798		46,798
Prepaid Expenses	7,363			7,363
Accrued Interest				
<b>TOTAL ASSETS</b>	<b>\$ 7,035,291</b>	<b>\$ 2,564,811</b>	<b>\$ 1,743,566</b>	<b>\$ 11,343,668</b>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 138,425	\$	\$ 24,254	\$ 162,679
Due to Other Funds	11,798	35,000		46,798
Accrued TIF Incentive Payable	64,843			64,843
Accrued Payroll & Related Liabilities	274,384			274,384
<b>TOTAL LIABILITIES</b>	<b>489,451</b>	<b>35,000</b>	<b>24,254</b>	<b>548,705</b>
<b>FUND BALANCES:</b>				
Restricted Fund Balance			1,133,670	1,133,670
Committed Fund Balance		2,529,811	585,641	3,115,452
Assigned Fund Balance	758,469			758,469
Unassigned Fund Balance	5,787,371			5,787,371
<b>TOTAL FUND BALANCES</b>	<b>6,545,840</b>	<b>2,529,811</b>	<b>1,719,311</b>	<b>10,794,962</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,035,291</b>	<b>\$ 2,564,811</b>	<b>\$ 1,743,566</b>	<b>\$ 11,343,668</b>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

Total Governmental Fund Balances	\$	10,794,962
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		15,085,794
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods		(471,730)
Deferred Outflows related to pension are not reported in the fund financial statements because they do not represent current financial resources		4,488,787
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		(2,306,438)
Incurred but Not Reported Health Claims		(149,362)
Compensated Absences Liability		(753,386)
Net Pension Liability--Cost-sharing CERS Plan		(18,766,008)
Net Pension Liability--Single-employer Police & Firefighters Plan		(1,090,040)
Net Position of Governmental Activities	\$	<u><u>6,832,579</u></u>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>GENERAL</u>	<u>CAPITAL EQUIPMENT</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES:</b>				
Taxes	\$ 12,764,181	\$ 1,109,319	\$ 134,776	\$ 14,008,276
Licenses & Permits	1,086,639	0	0	1,086,639
Charges for Services	1,211,283	0	0	1,211,283
Fines	980	0	0	980
Intergovernmental	1,657,292	204,204	1,419,021	3,280,517
Investment Income	46,506	20,101	14,879	81,486
Other	71,850	9,985	208,378	290,213
<b>TOTAL REVENUES</b>	<u>16,838,730</u>	<u>1,343,609</u>	<u>1,777,053</u>	<u>19,959,393</u>
<b>EXPENDITURES:</b>				
City Commission	768,789	4,872	0	773,660
City Attorney	39,123	0	0	39,123
City Manager	509,266	0	0	509,266
Finance Department	423,377	0	0	423,377
Planning Department	456,356	720	7,535	464,611
Main Street Department	94,732	0	43,234	137,966
Engineering	67,061	0	0	67,061
Conservancy	7,963	0	0	7,963
Administration	791,246	0	0	791,246
Central Communications	1,070,108	4,659	0	1,074,767
Police Department	3,703,918	20,011	167,370	3,891,299
Fire Department	4,182,661	12,493	11,129	4,206,283
EMS Division	2,161,778	16,499	0	2,178,277
Public Works	1,096,242	0	536,106	1,632,348
Intergovernmental	797,472	0	177,066	974,538
Capital	0	1,487,461	669,982	2,157,444
Debt service principal	0	354,198	0	354,198
Debt service interest	0	70,295	0	70,295
<b>TOTAL EXPENDITURES</b>	<u>16,170,092</u>	<u>1,971,208</u>	<u>1,612,423</u>	<u>19,753,723</u>
Excess (Deficit) of Revenues over Expenditures	<u>668,638</u>	<u>(627,599)</u>	<u>164,631</u>	<u>205,670</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from long-term borrowing	0	1,039,988	0	1,039,988
Gain/loss on sale of capital assets	23,727	0	0	23,727
Infrastructure contributions	0	0	0	0
Operating transfers in	0	0	40,164	40,164
Operating transfers out	0	(40,164)	0	(40,164)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>23,727</u>	<u>999,824</u>	<u>40,164</u>	<u>1,063,715</u>
Net Change in Fund Balance	692,365	372,226	204,795	1,269,385
Fund Balance June 30, 2016	<u>5,853,476</u>	<u>2,157,585</u>	<u>1,514,516</u>	<u>9,525,577</u>
Fund Balance June 30, 2017	<u>\$ 6,545,840</u>	<u>\$ 2,529,811</u>	<u>\$ 1,719,311</u>	<u>\$ 10,794,962</u>

See Auditor's Report and Accompanying Notes

**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, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$	1,269,385
Amounts reported for governmental activities in the statement of activities are different because:		
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.		2,162,404
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services		(1,370,407)
Proceeds of lease proceeds are reported as sources of funds in the fund statements and increases in long-term debt in the governmentwide statements		(1,039,988)
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		(107,887)
Cost-sharing County Employees Retirement System		(783,460)
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.		81,330
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.		(47,415)
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.		354,198
Change in Net Position of Governmental Activities	\$	<u><u>518,160</u></u>

**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, 2017**

	<b>GENERAL FUND</b>			<b>VARIANCE Favorable (Unfavorable)</b>
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>REVENUES:</b>				
Taxes	\$ 12,391,000	\$ 12,391,000	\$ 12,764,181	\$ 373,181
Licenses, Franchise & Permits	980,000	980,000	1,086,639	106,639
Charges for Services	1,742,000	1,740,000	1,211,283	(528,717)
Fines	0	2,000	980	(1,020)
Intergovernmental	1,427,000	1,427,000	1,657,292	230,292
Investment Income	0	0	46,506	46,506
Other	0	0	71,850	71,850
<b>TOTAL REVENUES</b>	<u>16,540,000</u>	<u>16,540,000</u>	<u>16,838,730</u>	<u>298,730</u>
<b>EXPENDITURES:</b>				
General Government	3,217,000	3,521,000	3,157,913	363,087
Central Communications	1,244,000	1,307,000	1,070,108	236,892
Police Department	3,943,000	4,157,000	3,703,918	453,082
Fire Department	4,219,000	4,573,000	4,182,661	390,339
EMS Division	2,437,000	2,538,000	2,161,778	376,222
Public Works	1,559,000	1,559,000	1,096,242	462,758
Intergovernmental	759,600	808,100	797,472	10,628
Capital	0	0	0	0
Debt service principal	0	0	0	0
Debt service interest	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<u>17,378,600</u>	<u>18,463,100</u>	<u>16,170,092</u>	<u>2,293,008</u>
Excess (Deficit) of Revenues over Expenditures	<u>(838,600)</u>	<u>(1,923,100)</u>	<u>668,638</u>	<u>2,591,738</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds of long-term debt	0	0	0	0
Gain or loss on sale of capital assets	0	0	23,727	(23,727)
Infrastructure contributions	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>0</u>	<u>0</u>	<u>23,727</u>	<u>(23,727)</u>
<b>Net Change in Fund Balance</b>	<b>(838,600)</b>	<b>(1,923,100)</b>	<b>692,365</b>	<b>2,568,012</b>
<b>Fund Balance June 30, 2016</b>	<u>4,377,000</u>	<u>4,377,000</u>	<u>5,853,476</u>	<u>1,476,476</u>
<b>Fund Balance June 30, 2017</b>	<u>\$ 3,538,400</u>	<u>\$ 2,453,900</u>	<u>\$ 6,545,840</u>	<u>\$ 4,044,487</u>

See Auditor's Report and Accompanying Notes

**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, 2017**

	<b>SPECIAL REVENUE FUND</b>			
	<b>(CAPITAL EQUIPMENT FUND)</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
<b>ORIGINAL</b>	<b>FINAL</b>	<b>Favorable</b>		
				<b>(Unfavorable)</b>
<b>REVENUES:</b>				
Taxes	\$ 1,050,000	\$ 1,050,000	\$ 1,109,319	\$ 59,319
Licenses & Permits	0	0	0	0
Charges for Services	0	0	0	0
Fines	0	0	0	0
Intergovernmental	1,213,000	1,213,000	204,204	(1,008,796)
Investment Income	0	0	20,101	20,101
Other	1,030,000	1,250,000	9,985	(1,240,015)
<b>TOTAL REVENUES</b>	<u>3,293,000</u>	<u>3,513,000</u>	<u>1,343,609</u>	<u>(2,169,391)</u>
<b>EXPENDITURES:</b>				
General Government	1,013,700	1,013,700	360,202	653,498
Central Communications	109,500	109,500	37,064	72,437
Police Department	129,500	192,000	161,284	30,716
Fire Department	1,656,000	2,138,000	520,432	1,617,568
EMS Division	360,100	621,100	421,296	199,804
Public Works	60,500	60,500	46,437	14,063
Intergovernmental	0	0	0	0
Capital	0	0	0	0
Debt service principal	0	0	354,198	(354,198)
Debt service interest	0	0	70,295	(70,295)
<b>TOTAL EXPENDITURES</b>	<u>3,329,300</u>	<u>4,134,800</u>	<u>1,971,208</u>	<u>2,163,592</u>
Excess (Deficit) of Revenues over Expenditures	<u>(36,300)</u>	<u>(621,800)</u>	<u>(627,599)</u>	<u>(5,799)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds of long-term debt	0	0	1,039,988	1,039,988
Gain/loss on sale of capital assets	0	0	0	0
Infrastructure contributions	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	(40,164)	(40,164)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>0</u>	<u>0</u>	<u>999,824</u>	<u>999,824</u>
Net Change in Fund Balance	(36,300)	(621,800)	372,226	994,026
Fund Balance June 30, 2016	<u>2,378,000</u>	<u>2,378,000</u>	<u>2,157,585</u>	<u>(220,415)</u>
Fund Balance June 30, 2017	<u>\$ 2,341,700</u>	<u>\$ 1,756,200</u>	<u>\$ 2,529,811</u>	<u>\$ 773,611</u>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUND (COMPONENT UNIT)  
JUNE 30, 2017**

	<b>ENTERPRISE FUND</b>
<b>ASSETS:</b>	
Current Assets	
Cash and Cash Equivalents	\$ 9,965,474
Restricted Cash and Cash Equivalents	327,498
Accrued Interest, Restricted	371
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$51,597	1,963,957
SDC Assessments Receivable	489,767
Other Accounts Receivable	38,775
Materials and Supplies	418,432
Prepaid Expenses	565,380
<b>Total Current Assets</b>	<b>13,769,654</b>
Restricted Assets	
Cash and Cash Equivalents	13,823,996
<b>Total Restricted Assets</b>	<b>13,823,996</b>
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	11,396,193
Land	1,519,050
Construction in Progress	2,154,336
<b>Total Property, Plant and Equipment</b>	<b>15,069,579</b>
<b>TOTAL ASSETS</b>	<b>\$ 42,663,229</b>
<b>DEFERRED OUTFLOWS OF RESOURCES-PENSONS</b>	<b>\$ 1,596,934</b>
<b>LIABILITIES:</b>	
Current Liabilities	
Accounts Payable	\$ 557,787
Other Accrued Liabilities	228,390
Customer Deposits	133,521
Accrued interest Payable	92,377
Current Portion of Long-Term Debt	3,637,293
<b>Total Current Liabilities</b>	<b>4,649,368</b>
<b>NONCURRENT LIABILITIES</b>	
Compensated Absences	524,097
Noncurrent Portion of Long-Term Debt	62,277,629
Net Pension Liability	5,999,576
<b>Total Noncurrent Liabilities</b>	<b>68,801,302</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 73,450,670</b>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	49,154,657
Restricted for Capital Projects (Expendable)	12,178,161
Restricted for Bond Debt Service (Expendable)	1,824,529
Unrestricted	7,652,146
<b>TOTAL NET POSITION</b>	<b>\$ 70,809,493</b>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUND (COMPONENT UNIT)  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>ENTERPRISE FUND</b>
<b>OPERATING REVENUES:</b>	
Water	\$ 5,266,431
Wastewater	8,578,082
Solid Waste	3,539,067
Transfer Station	44,911
<b>TOTAL OPERATING REVENUES</b>	<b>17,428,491</b>
<b>OPERATING EXPENSES:</b>	
Administrative	2,342,836
Solid Waste	2,002,127
Water	3,295,468
Wastewater	6,864,731
Vehicle Maintenance	118,190
<b>TOTAL OPERATING EXPENSES</b>	<b>14,623,352</b>
Operating Income (Loss)	2,805,139
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	132,405
Interest Expense	(1,653,017)
Other Income	187,800
Gain on Sale of Capital Assets	28,487
Amortization Expense of Bond Discount	(16,800)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(1,321,125)</b>
Net Income (Loss) before Capital Grants & Contributions	1,484,014
Capital Contributions	643,309
Change in Net Position	2,127,323
Net Position, Beginning of Year	70,170,773
Prior Period Adjustment	(1,488,603)
Net Position, Beginning of Year- Restated	68,682,170
Net Positon, End of Year	<b>\$ 70,809,493</b>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND (COMPONENT UNIT)  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>ENTERPRISE FUND</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 17,429,538
Payments to Suppliers	(4,594,943)
Payments to Employees	(4,738,725)
Other Receipts (Payments)	<u>58,758</u>
Net Cash Provided (Used) by Operating Activities	<u>8,154,628</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Sale of Equipment	31,406
Principal Payments	(3,544,944)
Interest Payments	(1,655,545)
Purchase of Property, Plant and Equipment	(6,077,109)
Contributed Capital Received	2,445,080
Cash from Other Income	<u>184,165</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,616,947)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	3,635
Cash from Interest	<u>132,378</u>
Net Cash Provided (Used) by Investing Activities	<u>136,013</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(326,306)
Cash and Cash Equivalents, Beginning of Year	<u>24,443,274</u>
Cash and Cash Equivalents, End of Year	<u>\$ 24,116,968</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</b>	
Cash and Cash Equivalents - Unrestricted	9,965,474
Cash and Cash Equivalents - Restricted	327,498
Investments - Restricted	<u>13,823,996</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 24,116,968</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 2,805,139
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities:	
Depreciation/Amortization	4,820,779
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Accounts Receivable, Customers	23,952
Other Accounts Receivable	50,991
Material and Supplies	319
Prepaid Expenses	3,689
Deferred Outflows of Resources	(337,236)
Accounts Payable	(67,312)
Accrued Liabilities	15,760
Net Pension Liability	807,097
Compensated Absences	46,588
Customer Deposits	<u>(15,138)</u>
Net Cash Provided by Operating Activities	<u>\$ 8,154,628</u>
<b>Supplemental Information, Noncash Transactions</b>	
Donated Capital assets	\$ <u>183,091</u>
Depreciation and Amortization Expense	\$ <u>4,820,779</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUND  
 JUNE 30, 2017

	PENSION TRUST	AGENCY FUND
ASSETS		
Cash and Cash Equivalents	\$ 102,184	\$ 32,461
Investments	1,073,452	
Pension contribution receivable		
Accrued Investment Income	5,804	
<b>TOTAL ASSETS</b>	<b>\$ 1,181,440</b>	<b>\$ 32,461</b>
LIABILITIES		
Accounts Payable		
Due to General Fund	\$	
Due to Member Agencies		\$ 32,461
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>\$ 32,461</b>
<b>FIDUCIARY NET POSITION</b>	<b>\$ 1,181,440</b>	

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>PENSION TRUST</b>	<b>AGENCY FUND</b>
ADDITIONS:		
Contributions	\$ 29,962	\$ 22,000
Investment Income:		
Interest	21,121	270
Net Appreciation (Depreciation) in Fair Value of Investments	(2,357)	
Gain (Loss) on Sale of Investments	(19,183)	
Less: Investment Expense	(4,393)	
Net Investment Income	(4,812)	270
Total Additions	25,150	22,270
DEDUCTIONS:		
Benefits	115,820	
Program Expenses		11,974
HRA Benefits	5,115	
Taxes		
Total Deductions	120,934	11,974
Change in Net Position	(95,784)	10,296
Net Position June 30, 2016	1,277,224	
Net Position June 30, 2017	\$ 1,181,440	\$ 10,296

See Auditor's Report and Accompanying Notes

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**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 - 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.
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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (b) Housing Authority of Winchester and Urban Renewal 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, 2017**

---

**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. 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 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.

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 component unit, Winchester Municipal Utilities.

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

The measurement focus of the pension trust fund is similar to proprietary funds, using the accrual basis of accounting. The agency fund is purely custodial (assets equal liabilities) and thus, do not involve measurement of results of operations.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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.

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.”

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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, accordingly, 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.

Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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, 2017 \$98,775 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.

*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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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.

**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, 2017 was \$16,800.

**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, 2017 total interest incurred and expensed was \$1,653,017.

**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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**PENSIONS**

Beginning in fiscal year 2015, the City has implemented GASB Statement No. 68, which requires recognition of the employer's (the City) obligation for the long-term liabilities 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. This implementation also added deferred outflows of resources and deferred inflows of resources to the City's statement of net position. The City reports its proportionate share of the collective balances for the cost-sharing plan administered by the Commonwealth of Kentucky. More information about these plans and the related balances is provided in Note 12—Pension Plans.

**PENSIONS—WMU**

WMU also implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. WMU reports 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 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.

**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".

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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 FY 2017 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 24, 2016 and were due December 2, 2016. Taxes unpaid after December 2, 2016 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. Based on collection histories, the City has provided at June 30, 2017, an allowance for uncollectible property taxes of 100% of delinquent accounts.

**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 \$84,847 for the year ended June 30, 2017. WMU contributed \$84,847 for the year ended June 30, 2017.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

CCGIS had accounts payables to WMU of \$5,205 for the year ended June 30, 2017, for reimbursements of payroll and other expenses. CCGIS had no accounts receivable from WMU for the years ended June 30, 2017 for excess reimbursements of payroll and other expenses. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

**IMPLEMENTATION OF GASB STANDARDS**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will revise employer accounting and reporting for other postemployment benefits (OPEB) and implement requirements similar to the provisions of GASBS No. 68 and No. 73 for pension benefits. GASB No. 75 will be effective for the City and WMU beginning July 1, 2018, and will require both entities to report their proportionate share of the net OPEB liability, deferred outflows and inflows of resources, and OPEB expense related to the CERS cost-sharing defined benefit OPEB plan. In addition, the City's and WMU's note disclosures for the CERS cost-sharing defined benefit OPEB plan will be expanded to include a description of their entities' proportionate shares of these balances. Neither the City nor WMU has determined the financial impact of the implementation of GASB Statement No. 75.

GASB Statement No. 82, *Pension Issues* (GASB 82), addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in a Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan members) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 will be effective for the Utility beginning with the year in which the measurement date of the pension liability is on or after June 15, 2017. The City nor WMU has determined the financial impact of the implementation of GASB Statement No. 82.

**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, 2017, the City is in compliance with this requirement.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

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	\$ 34,608	\$ 34,608
U.S. Government Securities	<u>1,038,844</u>	<u>1,006,001</u>
Total Investments	<u>\$1,073,452</u>	<u>\$1,040,609</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, 2017, the City's investments in money market mutual funds were unrated.

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

WMU's investment policy conforms to 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Information about the exposure of WMU's deposits and investments to this risk, using the segmented time distribution model is as follows:

06/30/17 Type	Fair Value	Maturities (in Years)			
		< Than 1	1 - 5	6 - 10	> 10
Cash & Cash Equivalents	\$ 24,116,968	\$ 24,116,968	\$ 0	\$ 0	\$ 0
Total	\$ 24,116,968	\$ 24,116,968	\$ 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:

06/30/17 Type	Fair Value	Ratings			
		AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 24,116,968	\$ 0	\$ 0	\$ 0	\$ 24,116,968
Total	\$ 24,116,968	\$ 0	\$ 0	\$ 0	\$ 24,116,968

**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, 2017 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 3 – WMU RESTRICTED ASSETS (CONTINUED)**

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, 2017, follows:

<u>06/30/17</u>	<u>Cash</u>	<u>Investments</u>	<u>Accrued Interest</u>	<u>Total</u>
<b>Restricted by Ordinance:</b>				
Bond Redemption Account	\$ 327,498	\$ 0	\$ 0	\$ 327,498
Reserve Accounts	1,090,407	0	0	1,090,407
Depreciation Account	1,742,676	0	0	1,742,676
Subtotal	<u>3,160,581</u>	<u>0</u>	<u>0</u>	<u>3,160,581</u>
<b>Other Restricted Accounts:</b>				
SDC Water Fund	2,741,440	0	0	2,741,440
SDC Wastewater Fund	185,944	0	0	185,944
Customer Deposits	148,804	0	0	148,804
KIA Reserve	406,624	0	0	406,624
Water Improvements	2,944,169	0	0	2,944,169
2015 Bond Funds	3,582,090	0	0	3,582,090
Capital Accum-Water	608,236	0	0	608,236
Capital Accum-Wastewater	373,606	0	0	373,606
Total	<u>\$ 14,151,494</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,151,494</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**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	\$ 1,117,572	\$ 1,009,266	\$ (1,240,796)	\$ 886,042
Land	2,152,683	-	-	2,152,683
Total Non-depreciable capital assets	<u>3,270,255</u>	<u>1,009,266</u>	<u>(1,240,796)</u>	<u>3,038,725</u>
Depreciable capital assets:				
Buildings	5,474,313	-	-	5,474,313
Vehicles	5,332,846	1,182,875	(231,712)	6,284,009
Furniture & fixtures	419,612	4,202	-	423,814
Equipment	4,404,060	1,076,232	(3,337)	5,476,955
Infrastructure	23,557,632	130,796	-	23,688,428
Total depreciable capital assets	<u>39,188,462</u>	<u>2,394,105</u>	<u>(235,049)</u>	<u>41,347,518</u>
Less accumulated depreciation				
Buildings	(2,843,392)	(205,302)	-	(3,048,694)
Vehicles	(4,032,334)	(431,951)	231,531	(4,232,754)
Furniture & fixtures	(374,429)	(22,653)	-	(397,082)
Equipment	(3,586,035)	(342,413)	3,347	(3,925,101)
Infrastructure	(17,328,730)	(368,088)	-	(17,696,818)
Total accumulated depreciation	<u>(28,164,920)</u>	<u>(1,370,407)</u>	<u>234,878</u>	<u>(29,300,449)</u>
Total depreciable capital assets, net	<u>11,023,542</u>	<u>1,023,698</u>	<u>(171)</u>	<u>12,047,069</u>
Governmental activities capital assets, net	<u>\$ 14,293,797</u>	<u>\$ 2,032,964</u>	<u>\$ (1,240,967)</u>	<u>\$ 15,085,794</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	\$ 632,991
Public Protection	
Police	140,591
Fire Protection	333,711
EMS	194,300
Public Works	68,814
	<u>\$ 1,370,407</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

WMU's systems consist of the following:

<u>6/30/2017</u>	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
<b>Non-depreciable Assets:</b>				
Land	\$ 1,519,050	\$ 0	\$ 0	\$ 1,519,050
Construction in Progress	10,953,543	1,360,108	(10,159,315)	2,154,336
Total Non-depreciable Assets	<u>\$ 12,472,593</u>	<u>\$ 1,360,108</u>	<u>\$ (10,159,315)</u>	<u>\$ 3,673,386</u>
<b>Depreciable Assets:</b>				
Administrative	\$ 3,341,894	\$ 252,906	\$ (137,353)	\$ 3,457,447
Water System	47,228,257	12,084,930	(1,905,632)	57,407,555
Wastewater System	111,720,432	1,659,546	(1,121,607)	112,258,371
Solid Waste	7,538,055	1,078,013	(725,692)	7,890,376
Vehicle Maintenance	449,920	0	0	449,920
Equipment Capital Lease	81,279	0	(48,110.00)	33,169
Subtotal	<u>170,359,837</u>	<u>15,075,395</u>	<u>(3,938,394)</u>	<u>181,496,838</u>
<b>Accumulated Depreciation:</b>				
Administrative	(1,969,058)	(129,377)	93,973	(2,004,462)
Water System	(14,461,926)	(1,097,380)	44,474	(15,514,832)
Wastewater System	(27,554,568)	(3,141,464)	108,702	(30,587,330)
Solid Waste	(2,157,867)	(428,267)	165,273	(2,420,861)
Vehicle Maintenance	(334,913)	(7,491)	0	(342,404)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
Subtotal	<u>(65,709,088)</u>	<u>(4,803,979)</u>	<u>412,422</u>	<u>(70,100,645)</u>
<b>Total Net Property, Plant and Equipment</b>	<u>\$ 104,650,749</u>	<u>\$ 10,271,416</u>	<u>\$ (3,525,972)</u>	<u>\$ 111,396,193</u>

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

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

Depreciation expense in total and by function follows:

<u>Function</u>	<u>2017</u>
Administrative	\$ 129,377
Water System	1,097,380
Wastewater System	3,141,464
Solid Waste	428,267
Vehicle Maintenance	7,491
Total Depreciation Expense	<u>\$ 4,803,979</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 5 — INTERFUND ACTIVITY**

Interfund receivables and payables during the year ending June 30, 2017 were as follows.

Fund	Receivable	Payable
General Fund	\$ 35,000	\$ 11,798
Capital Equipment Fund	11,798	35,000
Total	\$ 46,798	\$ 46,798

In addition, certain funds have been transferred among the governmental funds to allocate resources for required grant matches and to subsidize operations. Transfers during FY 2017 include the following:

Fund	Transfers Out	Transfers In
Capital Equipment Fund	\$ 40,164	\$ -
Federal Grant Funds	-	40,164
Total	\$ 40,164	\$ 40,164

**NOTE 6 — OPERATING LEASES**

The City had operating leases for the following equipment at June 30, 2017. 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 MPC3503	7/1/2015	\$214	48	Dispatch	06/10/19
MPC3502 Ricoh copier	6/19/2013	159	60	Planning	05/24/18
MP301SPF Ricoh copier	4/10/2014	52	48	City Manager	03/20/18
MP301SPF Ricoh copier	4/10/2014	52	48	Finance	03/20/18
MP301SPF Ricoh copier	5/23/2014	52	48	Fire Sta #2	05/02/18
MPC3503SP Ricoh copier	6/18/2014	167	60	Police	05/23/19
MPC3503SP Ricoh copier	3/1/2017	39	48	Human Resources	02/01/21

**Rental expense for the current fiscal year was \$11,448. The future minimum payments are as follows:**

<u>Year</u>	<u>Amount</u>
2018	8,411
2019	4,976
2020	576
2021	336
Total	\$14,299

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 7 — CONSTRUCTION IN PROGRESS**

Construction in progress at June 30, 2017 consists of the following:

	Construction in Progress			
	Beginning	Additions	Completed	Ending
7th Street	\$ 199,736	\$ -	\$ -	\$ 199,736
Fulton Rd	199,500	225	-	199,725
Maple/Boone Sanitary Sewer	226,168	38,507	-	264,675
Community Splash Pad	28,059	9,444	-	37,503
Downtown Mast Arms	18,654	2,236	-	20,890
Washington St Storm Water	19,340	111,456	130,796	-
West Washington Culvert	10,000	-	10,000	-
Lykins Park Trail	-	5,141	-	5,141
Sphar Building	106,279	52,093	-	158,372
Rear Mount Aerial Apparatus	309,836	790,164	1,100,000	-
	\$ 1,117,572	\$ 1,009,266	\$ 1,240,796	\$ 886,042

**NOTE 8 - LONG-TERM DEBT**

*CHANGES IN LONG-TERM DEBT*

Governmental long-term liability activity was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Capital Leases	\$ 1,620,648	\$ 1,039,988	\$ (354,198)	\$ 2,306,438	\$ 404,737
Sick Leave	705,971	47,415	-	753,386	-
Total Governmental	\$ 2,326,619	\$ 1,087,403	\$ (354,198)	\$ 3,059,824	\$ 404,737

Leased facilities and equipment under capital leases in capital assets at June 30, 2017, included the following:

Facilities and Equipment	\$4,974,089
Less: Accumulated Depreciation	<u>(1,869,754)</u>
Net Value	<u>\$3,104,335</u>

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**CAPITAL LEASES**

The City has four capital leases at of June 30, 2017. 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.

<b>Purpose</b>	<b>Date</b>	<b>Interest Rate</b>	<b>Term</b>	<b>Annual Payment</b>	<b>Outstanding Balance</b>
Cardiac Monitors	6/30/2014	1.440%	4 years	\$ 68,201	\$ 50,784
Horton Ambulance (EMS)	2/26/2013	1.770%	4 years	\$ 42,697	\$ 21,208
Pierce Pumper Fire Truck	11/19/2009	3.940%	7 years	\$ 74,030	\$ -
Winchester Community Center	5/21/2010	3.480%	20 years	\$ 152,277	\$ 1,224,121
Ambulance Remount	9/3/2015	1.750%	4 years	\$ 36,522	\$ 80,406
Ambulance Remounts	3/15/2017	1.892%	4 years	\$ 15,536	\$ 209,978
SCBAs	3/15/2017	2.048%	5 years	\$ 20,985	\$ 359,970
Rescue Pumper	3/15/2017	2.048%	5 years	\$ 20,985	\$ 359,970

Capital leasing commitments to maturity for the year ending June 30, 2017:

2018	\$ 480,862
2019	406,529
2020	377,296
2021	335,092
2022	218,132
Thereafter	928,019
<b>Total Minimum Lease Payments</b>	<b>2,745,930</b>
Less interest payments	(439,492)
<b>Present Value of Minimum Lease Payments</b>	<b><u>\$ 2,306,438</u></b>

**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, 2017 are summarized as follows:

<b>Description</b>	<b>Rate</b>	<b>Maturity</b>	<b>Original Issue</b>	<b>2017 Total</b>
2011 Issue	5.27%	01/01/31	\$ 9,010,000	\$ 6,943,750
2012 Issue	2.00-3.75%	07/01/32	7,495,000	5,915,000
2014 Issue			9,915,000	9,510,000
Less: Unamortized Discount				(327,213)
Total Bonds				22,041,519
KIA-Strodes Creek	1.00%	12/01/28	21,000,000	12,586,703
		Estimate		
KIA-Lower Howards Creek	2.00%	01/01/31	36,600,000	30,396,804
		Estimate		
KIA-Bel-Air	2.00%	01/01/31	1,000,000	446,180
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	244,191
KIA-Vaught Court	2.00%	06/01/31	\$ 287,400	199,525
Total KIA Loans				43,873,403
Less: Current Maturities				(3,637,293)
Total Long Term				\$ <u>62,277,629</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

*LONG-TERM DEBT – WMU (CONTINUED)*

The annual bond and long-term debt service requirements, as of June 30, 2017, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,637,293	\$ 1,588,594	\$ 5,225,887
2018	3,706,526	1,518,452	5,224,978
2019	3,776,544	1,441,237	5,217,781
2020	3,864,446	1,362,324	5,226,770
2021	3,946,075	1,280,934	5,227,009
2022-2026	21,089,846	5,071,875	26,161,721
2027-2031	18,467,829	2,563,778	21,031,607
2032-2036	4,048,594	939,987	4,988,581
2037-2041	2,180,000	551,694	2,731,694
2042-2046	1,525,000	123,600	1,648,600
	<u>\$ 66,242,153</u>	<u>\$ 16,442,475</u>	<u>\$ 82,684,628</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.

**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, 2021. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1.

**Series 2014 Bonds**

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

*LONG-TERM DEBT – WMU (CONTINUED)*

**KIA – Strodes Creek Loan**

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

**KIA – Vaught Court Loan**

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

**KIA – 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 current year, the final draw of \$999,996 of the loan was drawn down. The loan will carry a 2.00% interest rate and mature 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.

**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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

LONG-TERM DEBT – WMU (CONTINUED)

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 – 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, 2015. During the prior year, \$478,140 of the loan was drawn down. In the current year, the final draw of \$59,095 was drawn on the loan. The loan will carry a 2.00% interest rate and mature 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.

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.

**Changes in Long-Term Debt - WMU**

Long-Term Debt consists of bonds and other indebtedness for which the changes in the years ended June 30, 2017 are as follows:

<u>06/30/17</u> <u>Description</u>	<u>Beginning</u>	<u>Borrowings</u> <u>Additions</u>	<u>Repayments</u> <u>Reductions</u>	<u>2017</u> <u>Ending</u>	<u>Current</u>
Compensated Absences	\$ 477,509	\$ 46,588	\$ 0	\$ 524,097	\$ 0
Bonds	22,908,886	0	867,367	22,041,519	916,251
KIA-Strodes Creek	13,614,487	0	1,027,784	12,586,703	1,038,088
KIA-Lower Howards	31,994,224	0	1,597,420	30,396,804	1,630,202
KIA-Bel-Air	469,627	0	23,447	446,180	23,920
KIA-Storage Tank	259,802	0	15,611	244,191	15,249
KIA-Vaught Court	212,840	0	13,315	199,525	13,583
Total Long-Term Debt	<u>\$ 69,937,375</u>	<u>\$ 46,588</u>	<u>\$ 3,544,944</u>	<u>\$ 66,439,019</u>	<u>\$ 3,637,293</u>

**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**

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.”

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 9 – COMPLIANCE WITH BOND ORDINANCES - WMU (CONTINUED)**

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. The first factor was applicable for June 30, 2017 and required a balance of \$1,048,175.

**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.

**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:

<b>Bonds:</b>		<b><u>2017</u></b>
Income Available for Debt Service	\$	3,125,344
Add: Depreciation		4,803,979
Cash Available for Bond Debt Service	\$	<u>7,292,323</u>
Annual Debt Service on Bonds		<u>1,760,673</u>
Coverage Ratio		<u>4.50</u>
<b>KIA:</b>		<b><u>2017</u></b>
Income Available for Debt Service	\$	3,125,344
Add: Depreciation		4,803,979
Cash Available for Debt Service	\$	<u>7,292,323</u>
Annual Debt Service on all Debt		<u>5,222,354</u>
Coverage Ratio		<u>1.52</u>

Winchester Municipal Utilities is in compliance with all of the covenants of the bond ordinance and KIA loan agreement as of June 30, 2017.

**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	\$	20,935,480
Wastewater Utility Improvements		17,952,000
Total projected financing requirement	\$	<u>38,887,480</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

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

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	7,000
Replace Microcomputers	6,000
Field Operation Vehicles	330,000
Solid Waste Collection:	
Curbit Replacement	25,000
Container Replacement	50,000
Replace Compactor Ejector Box	10,000
Solid Waste Recycling	1,000
Water Treatment Plant Equipment Improvements	50,000
Water System Improvements	50,000
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	230,000
New Meter Services	30,000
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
WWTP Equipment Improvements	407,000
Solids Processing Improvements	297,000
Wastewater Treatment Plant (LHC)	40,000
Wastewater Solids Processing (LHC)	15,000
Total Annual Allocations for Infrastructure Investment	<u>\$ 2,005,000</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, 2017**

---

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

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2011, 2012 and 2015 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:

<u>Describe</u>	<u>CERS</u>	<u>P&amp;F</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$ 4,351,339	\$ 123,230	\$ 4,474,569	\$ 1,596,934
Deferred Inflows	471,730	-0-	471,730	-0-
Net Pension Liability	18,766,008	1,090,041	19,856,049	5,999,576
Pension expense	\$ 797,678	\$ 132,930	\$ 930,608	\$ 469,861

**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, 2017**

---

**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, 2017, and the report issued by the firm of Bryan, Pendleton, Swats & McAllister, LLC. A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board.

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, 2017 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, 2017	2.100%
July 1, 2016	0.700%
July 1, 2015	0.800%
July 1, 2014	1.500%
July 1, 2013	1.770%

The City’s previous contribution policy was to amortize unfunded actuarial accrued liabilities over thirty years (open basis). Starting with the year ended June 30, 2001, the unfunded actuarial liabilities are assumed to be amortized by year 2012 (closed basis), but with any unfunded actuarial accrued liability after 2007 being amortized over five years (open basis). However, the City is only contributing a fixed amount of \$25,000 per year.

*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, 2017, PNC has invested 3.32% of the trust in a mutual fund (for cash flow purposes) and 96.78% in U.S. Treasury securities. As of June 30, 2017, the annual money-weighted rate of return, net of investment expense is a -0.39%.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017**

**NOTE 12 – PENSION PLANS (CONTINUED)**

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

As of June 30, 2017, 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>
TIP Notes	1.625%	01/15/18	AAA	\$117,310	\$105,186
Treasury Notes	3.500%	02/15/18	AAA	\$101,407	\$100,446
TIP Notes	1.875%	07/15/19	Unrated	\$119,412	\$105,770
Treasury Notes	3.375%	11/15/19	AAA	\$104,481	\$96,926
Treasury Notes	1.500%	08/31/18	AAA	\$50,114	\$50,283
Treasury Notes	0.875%	07/31/19	AAA	\$74,204	\$73,931
Treasury Notes	0.625%	08/31/17	AAA	\$49,969	\$49,309
Treasury Notes	1.375%	01/31/20	AAA	\$99,723	\$99,774
Treasury Notes	1.125%	03/31/20	AAA	\$98,965	\$98,965
Treasury Notes	1.125%	04/30/20	AAA	\$123,623	\$125,630
Treasury Notes	1.125%	01/31/19	AAA	\$99,637	\$99,781

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, 2017:

Total Pension Liability	\$ 2,271,594
Pension Plan's Fiduciary Net Position	(1,181,553)
Net Pension Liability	<u>\$ 1,090,041</u>

*Significant Assumptions Used in Actuarial Study.* The actuarial analysis, completed as of June 30, 2017, 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-2016.
- The actuarial assumptions included an assumption for future COLAs compounded at a rate equal to the average adjustment made during the most recent five years (currently 1.37%, compared to 2.00% per annum in the prior year's report).
- The actuarial value of assets was determined at the market value as reported by PNC Bank, Kentucky, Inc. plus a checking account balance.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 12 – PENSION PLANS (CONTINUED)**

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

- 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 (\$25,000 per year). 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 3.13%. 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.
- 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 (2.13%)	Current Rate (3.13%)	1% Increase (4.13%)
Net Pension Liability	\$ 1,450,057	\$ 1,090,041	\$ 805,766

***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, 2017.

	Increase/(Decrease)			Pension Expense
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	
Balances, June 30, 2016	\$ 2,243,524	\$ 1,277,267	\$ 966,257	
Changes for the Year:				
Interest expense	78,290		78,290	\$ 78,290
Experience loss (gains)	9,417		9,417	9,417
Changes of assumptions	56,183		56,183	56,183
Employer contributions		25,000	(25,000)	
Net investment income		136	(136)	
Expected return on plan investments				(60,727)
Current expense of asset gain/loss			0	49,662
Benefits paid	(115,820)	(115,820)	0	
Plan administrative expenses		(4,925)	4,925	
Other changes		(105)	105	
Net changes	28,070	(95,714)	123,784	\$ 132,930
Balances, June 30, 2017	\$ 2,271,594	\$ 1,181,553	\$ 1,090,041	

***Pension Expense Deferred Outflows/Inflows.*** For the year ended June 30, 2017, the recognized pension expense was \$132,930.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017**

---

**NOTE 12 – PENSION PLANS (CONTINUED)**

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

At June 30, 2017, 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	Remaining Amortization Period
Net difference between projected and actual earnings on investments	<u>\$ 123,230</u>	-0-	4 years
Total	<u>\$ 123,230</u>		

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:

<b>Year ending June 30:</b>	
2018	\$ 49,660
2019	\$ 37,433
2020	\$ 23,033
2021	\$ 13,104
2022	\$ -
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, 2017**

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

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, 2017**

---

**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, 2017**

**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, 2017, 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 (.08016%)	\$ 3,946,977
Hazardous plan (.86361%)	<u>14,819,031</u>
Total proportionate share	<u>\$18,766,008</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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, 2016, the City's proportion was 0.08016% of the nonhazardous plan and 0.86361% of the hazardous plan.

For the year ended June 30, 2017, the City recognized pension expense of \$248,514 for nonhazardous members and \$549,164 for hazardous members in CERS.

At June 30, 2017, City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Non-hazardous</u>	<u>Hazardous</u>	<u>Total City</u>	<u>WMU</u>	<u>Non-hazardous</u>	<u>Hazardous</u>	<u>Total City</u>
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Outflows of</u>	<u>Outflows of</u>	<u>Outflows of</u>	<u>Inflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>
	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ 17,232	\$ 213,730	\$ 230,962	\$ 26,193	\$	\$	\$
Changes of assumptions	209,090	850,378	1,059,468	317,825			
Net difference between projected and actual earnings on pension plan investments	371,056	1,250,119	1,621,175	564,021			
Changes in proportion and differences between City's contributions and proportionate share of contributions	34,713	103,490	138,203	119,734	40,009	431,721	471,730
City's contributions subsequent to the measurement date	<u>293,169</u>	<u>1,022,581</u>	<u>1,315,750</u>	<u>569,161</u>			
	<u>\$ 925,260</u>	<u>\$ 3,440,298</u>	<u>\$ 4,365,558</u>	<u>\$ 1,596,934</u>	<u>\$ 40,009</u>	<u>\$ 431,721</u>	<u>\$ 471,730</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 12 – PENSION PLANS (CONTINUED)**

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

\$1,315,750 reported as deferred outflows of resources related to pensions resulting from City contributions and \$569,161 resulting from WMU contributions subsequent to the measurement date for the 2017 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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,	<u>Non-hazardous Deferred Outflows of Resources</u>	<u>Hazardous Deferred Outflows of Resources</u>	<u>Total City Deferred Outflows of Resources</u>	<u>WMU Deferred Outflows of Resources</u>	<u>Non-hazardous Deferred Inflows of Resources</u>	<u>Hazardous Deferred Inflows of Resources</u>	<u>Total City Deferred Inflows of Resources</u>
2018	\$ 234,789	\$ 898,058	\$ 1,132,847	\$ 381,765	\$ 8,002	\$ 86,345	\$ 94,347
2019	157,081	600,827	757,908	255,412	8,002	86,344	94,346
2020	152,996	585,200	738,196	248,769	8,002	86,344	94,346
2021	87,225	333,632	420,857	141,827	8,002	86,344	94,346
2022	-	-	-	-	8,001	86,344	94,345
	<u>\$ 632,091</u>	<u>\$ 2,417,717</u>	<u>\$ 3,049,808</u>	<u>\$ 1,027,773</u>	<u>\$ 40,009</u>	<u>\$ 431,721</u>	<u>\$ 471,730</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense & inflation	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.4%
Combined Fixed Income	19.0%	1.5%
Real Return (Diversified Inflation Strategies)	10.0%	3.5%
Real Estate Absolute Return (Diversified Hedge Funds)	5.0%	4.5%
Private Equity	10.0%	4.25%
Cash Equivalents	10.0%	8.5%
	<u>2.0%</u>	-0.25%
Total	<u>100.0%</u>	

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.50%. 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 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 12 – PENSION PLANS (CONTINUED)**

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

*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>
City's proportionate share of the net pension liability	6.50%	7.50%	8.50%
CERS - Nonhazardous	\$ 4,918,317	\$ 3,946,977	\$ 3,113,965
CERS - Hazardous	\$ 18,617,039	\$ 14,819,031	\$ 11,686,352
WMU - CERS - Nonhazardous	\$ 7,476,260	\$ 5,999,576	\$ 4,733,491
Total Net Pension Liabilities			
CERS - Nonhazardous	\$ 6,135,625,606	\$ 4,923,618,237	\$ 3,884,686,628
CERS - Hazardous	\$ 2,155,722,903	\$ 1,715,941,441	\$ 1,353,197,862

**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, 2017 were \$38,569. WMU does not contribute to these plans.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017**

---

**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
Industrial Facility-Leggett & Platt	October 20, 1988	October 1, 2018	\$ 2,400,000
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.

**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 provisions 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 mandates 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, 2017**

**NOTE 15 – WMU – ECONOMIC DEPENDENCY**

WMU is economically dependent for water and wastewater revenues from the following four entities which account for 19% for 2017:

<b>Name</b>	<b>2017</b>
Alltech	\$ 1,073,876
The Kroger Company	729,864
Sekisui	475,618
East Clark County WD	293,031
	\$ 2,572,389

**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 *assigned* fund balance in the General Fund.

Fiscal Year Ended June 30	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2014	\$ 109,611	\$ 1,112,190	\$ 1,108,140	\$ 113,661
2015	\$ 113,661	\$ 1,302,942	\$ 1,253,766	\$ 162,837
2016	\$ 162,837	\$ 1,849,045	\$ 1,781,190	\$ 230,692
2017	\$ 230,692	\$ 1,132,974	\$ 1,214,304	\$ 149,362

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**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 (\$161,268) and shared revenues from the Commonwealth of Kentucky (\$973,408). Committed fund balance includes amounts set aside by the City Commission for special projects (\$585,641) and capital acquisitions (\$2,389,911). Assigned fund balance includes balances held by a third-party administrator to pay future employee health care claims (\$758,469).

**NOTE 18 – LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUNDS**

The City received \$9,089 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 2017, the City spent \$4,750.

**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 2017.

Winchester/Clark County Planning & Zoning	\$ 37,000
Winchester/Clark County Parks & Recreation	296,604
Clark County/Winchester Heritage Commission	12,000
Winchester/Clark County Recreation	72,015
Winchester/Clark County Industrial Development Authority	119,000
Winchester/Clark County Board of Adjustment	1,500
Clark County GIS	86,999
 Total Contributions	 \$ <u>625,119</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 will require 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

*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. Therefore, 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, 2017, the City paid \$5,115 for these OPEB benefits. The City has not determined the net OPEB obligation in accordance with GASB Statement No. 45.

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

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
	Participation after 7/1/2003	Requires 10 years of service; \$10 per month for each year of earned service	Participation after 7/1/2003	Requires 10 years of service; \$15 per month for each year of earned service; includes spouse & dependent coverage
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
	Benefit	\$10 per month for each year of service; adjusted by 1.5% annually	Benefit	\$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
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
	Benefit	\$10 per month for each year of service; adjusted by 1.5% annually	Benefit	\$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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

*Funding Policy.* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.70% of the 19.18% actuarially required contribution rate paid by employers 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.

Required and actual contributions for the current and two prior years are presented in the table below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Nonhazardous OPEB:			
Required Contribution Rate	4.70%	4.93%	4.88%
Required Contribution	\$ 93,009	\$ 84,160	\$ 84,951
Actual Contribution	\$ 93,009	\$ 84,160	\$ 84,951
Percentage of Required	100.00%	100.00%	100.00%
Hazardous OPEB:			
Required Contribution Rate	9.35%	9.79%	13.42%
Required Contribution	\$ 465,502	\$ 576,812	\$ 644,702
Actual Contribution	\$ 465,502	\$ 576,812	\$ 644,702
Percentage of Required	100.00%	100.00%	100.00%
WMU Nonhazardous OPEB:			
Required Contribution Rate	4.70%	4.93%	4.88%
Required Contribution	\$ 139,140	\$ 134,813	\$ 139,608
Actual Contribution	\$ 139,140	\$ 134,813	\$ 139,608
Percentage of Required	100.00%	100.00%	100.00%

**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 2016. 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 2017 to include a tract of omitted property. Catalent paid the City \$43,397 in-lieu tax payment during fiscal year 2017.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**NOTE 22 – WMU - RESTATEMENT OF BEGINNING BALANCES**

The beginning fund balance at June 30, 2016 has been restated to record a prior period adjustment to correct errors in the water and sewer meter readings of a commercial customer over an approximate period of 12 years. The effect of the prior period adjustment to the June 30, 2016 fund balance was a decrease of \$1,488,603.

**NOTE 23 – SUBSEQUENT EVENTS**

The city has evaluated all subsequent events through January 16, 2018 the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF WINCHESTER, KENTUCKY**  
**SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES**  
**For the Year Ended June 30, 2017**

	2017	2016	2015	2014
<b>SCHEDULE OF CHANGES IN NET PENSION LIABILITY</b>				
Total Pension Liability:				
Total Pension Liability - beginning of period	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956	\$ 2,229,075
Interest cost	78,290	88,989	90,061	108,334
Differences between expected and actual experience	9,417	(2,392)	(117,035)	(18,476)
Changes of assumptions	56,183	183,853	105,860	(74,789)
Benefit payments	(115,820)	(117,851)	(116,917)	(115,188)
Total Pension Liability - end of period	<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	1,277,267	1,364,940	1,472,928	1,567,294
Contributions - Employer	25,000	20,232	15,662	14,370
Net Investment Income	136	20,234	3,936	15,822
Benefit Payments/Refunds	(115,820)	(123,083)	(119,483)	(115,188)
Other	(5,030)	(5,099)	(8,103)	(9,370)
Plan Fiduciary Net Position - end of period	<u>1,181,553</u>	<u>1,277,224</u>	<u>1,364,940</u>	<u>1,472,928</u>
Net Pension Liability - end of period	<u>\$ 1,090,041</u>	<u>\$ 966,300</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>

<b>SCHEDULE OF NET PENSION LIABILITY</b>				
Total pension liability	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	1,181,553	1,277,224	1,364,940	1,472,928
Net pension liability	<u>\$ 1,090,041</u>	<u>\$ 966,300</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	52.0%	56.9%	65.3%	69.2%

Note: There is no covered payroll for this plan

<b>SCHEDULE OF CONTRIBUTIONS</b>				
Actuarially determined contribution	\$ 161,363	\$ 215,517	\$ 168,897	\$ 145,214
Actual employer contributions	25,000	15,000	10,000	5,000
Contribution deficiency (excess)	<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

<b>Annual Money-Weighted Rate of Return</b>				
Annual money-weighted rate of return, net of investment expense	-0.39%	1.16%	-0.10%	0.94%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	07/012017
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	3.13%
Inflation	1.37%
Other	RP-2014 General Mortality Tables Adjusted to 2006

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**  
**COST-SHARING DEFINED PENSION TRUST SCHEDULES & NOTES**  
**For the Year Ended June 30, 2017**

**TABLE 1--PROPORTIONATE SHARE OF COLLECTIVE LIABILITY**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NONHAZARDOUS PLAN</b>			
Proportionate share percentage	0.080160%	0.081660%	0.079420%
Proportionate share amount	\$ 3,946,977	\$ 3,510,870	\$ 2,576,678
Covered Payroll	\$ 1,978,917	\$ 1,978,917	\$ 1,818,523
Collective share of NPL as % of payroll	199.5%	177.4%	141.7%
Plan's fiduciary net position as a percentage of total pension liability	59.00%	59.97%	66.80%
 <b>HAZARDOUS PLAN</b>			
Proportionate share percentage	0.863610%	0.909610%	0.896322%
Proportionate share amount	\$ 14,819,031	\$ 13,963,426	\$ 10,772,225
Covered Payroll	\$ 4,978,627	\$ 4,978,627	\$ 4,765,643
Collective share of NPL as % of payroll	297.65%	280.47%	226.04%
Plan's fiduciary net position as a percentage of total pension liability	57.41%	57.52%	63.46%
Proportionate share (amounts)			
Nonhazardous	\$ 3,946,977	\$ 3,510,870	\$ 2,576,678
Hazardous plan	14,819,031	13,963,426	10,772,225
Total proportionate share	<u>\$ 18,766,008</u>	<u>\$ 17,474,296</u>	<u>\$ 13,348,903</u>

**TABLE 2--CONTRIBUTIONS**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NONHAZARDOUS PLAN</b>			
Required Contributions	\$ 293,169	\$ 243,800	\$ 344,179
Contributions Recognized by Plan	293,169	243,800	344,179
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 1,978,917	\$ 1,978,917	\$ 1,818,523
Contributions as Percentage of Payroll	14.81%	12.32%	18.93%
<b>HAZARDOUS PLAN</b>			
Required Contributions	\$ 1,022,581	\$ 983,018	\$ 1,620,719
Contributions Recognized by Plan	1,022,581	983,018	1,620,719
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 4,978,627	\$ 4,978,627	\$ 4,765,643
Contributions as Percentage of Payroll	20.54%	19.74%	34.01%

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  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2017**

**COUNTY EMPLOYEES RETIREMENT SYSTEM:**

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 Years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, 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

Changes of Assumptions:

The assumed investment rate remained 7.5%.

The assumed rate of inflation remained 3.25%.

The assumed rate of wage inflation remained .75%.

Payroll growth assumption remained 4%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF WINCHESTER, KENTUCKY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2017

	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	FEDERAL GRANT FUND	STATE ASAP FUND	STATE GRANT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:												
Cash and Cash Equivalents	\$ 927,278	\$ 7,124	\$ 2	\$ 32,160	\$ 214,335	\$ 108,104	\$ 159,908	\$ 31,499	\$ 151,132	\$ 39,635	\$ 9,128	\$ 1,680,305
Accounts Receivable	40,140	0	0	0	0	0	0	0	23,121	0	0	63,261
Due from Other Funds	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ 967,418</b>	<b>\$ 7,124</b>	<b>\$ 2</b>	<b>\$ 32,160</b>	<b>\$ 214,335</b>	<b>\$ 108,104</b>	<b>\$ 159,908</b>	<b>\$ 31,499</b>	<b>\$ 174,253</b>	<b>\$ 39,635</b>	<b>\$ 9,128</b>	<b>\$ 1,743,566</b>
LIABILITIES:												
Accounts Payable	\$ 1,133	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 23,121	\$ 0	\$ 0	\$ 24,254
Deferred Grant Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Due to Other Funds	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>1,133</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23,121</b>	<b>0</b>	<b>0</b>	<b>24,254</b>
FUND BALANCES:												
Restricted Fund Balance	966,284	7,124	2	0	0	0	0	0	151,132	0	9,128	1,133,670
Committed Fund Balance	0	0	0	32,160	214,335	108,104	159,908	31,499	0	39,635	0	585,641
<b>TOTAL FUND BALANCES</b>	<b>966,284</b>	<b>7,124</b>	<b>2</b>	<b>32,160</b>	<b>214,335</b>	<b>108,104</b>	<b>159,908</b>	<b>31,499</b>	<b>151,132</b>	<b>39,635</b>	<b>9,128</b>	<b>1,719,311</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 967,418</b>	<b>\$ 7,124</b>	<b>\$ 2</b>	<b>\$ 32,160</b>	<b>\$ 214,335</b>	<b>\$ 108,104</b>	<b>\$ 159,908</b>	<b>\$ 31,499</b>	<b>\$ 174,253</b>	<b>\$ 39,635</b>	<b>\$ 9,128</b>	<b>\$ 1,743,566</b>

CITY OF WINCHESTER, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	FEDERAL GRANT FUND	STATE ASAP FUND	STATE GRANT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:												
Taxes	\$ 0	\$ 0	\$ 134,776	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 134,776
Intergovernmental	409,206	9,089	0	500	0	92,246	18,019	0	864,560	25,400	0	1,419,021
Investment Income	8,188	43	94	336	1,657	568	2,000	338	1,114	423	118	14,879
Other	15,320	0	404	2,240	53,425	9,977	12,000	3,070	111,942	0	0	208,378
<b>TOTAL REVENUES</b>	<b>432,714</b>	<b>9,132</b>	<b>135,274</b>	<b>3,076</b>	<b>55,082</b>	<b>102,791</b>	<b>32,019</b>	<b>3,408</b>	<b>977,616</b>	<b>25,823</b>	<b>118</b>	<b>1,777,053</b>
EXPENDITURES:												
City Commission	0	0	0	0	0	0	0	0	0	0	0	0
Main Street Department	0	0	0	1,635	41,599	0	0	0	0	0	0	43,234
Administration	0	0	0	0	0	0	0	0	0	0	0	0
Planning	0	0	0	7,535	0	0	0	0	0	0	0	7,535
Conservancy	0	0	0	0	0	0	0	0	0	0	0	0
Police Department	0	0	0	0	0	15,905	111,679	0	0	39,786	0	167,370
Fire Department	0	0	0	0	0	0	0	11,129	0	0	0	11,129
EMS	0	0	0	0	0	0	0	0	0	0	0	0
Public Works	518,598	4,750	0	0	0	0	0	0	7,617	0	5,141	536,106
Intergovernmental	0	0	135,274	0	0	0	0	0	41,792	0	0	177,066
Capital	(197,275)	0	0	0	0	0	0	0	867,257	0	0	669,982
<b>TOTAL EXPENDITURES</b>	<b>321,324</b>	<b>4,750</b>	<b>135,274</b>	<b>9,170</b>	<b>41,599</b>	<b>15,905</b>	<b>111,679</b>	<b>11,129</b>	<b>916,666</b>	<b>39,786</b>	<b>5,141</b>	<b>1,612,423</b>
Excess (Deficit) of Revenues over Expenditures	111,391	4,382	0	(6,094)	13,483	86,886	(79,661)	(7,721)	60,950	(13,963)	(5,023)	164,631
OTHER FINANCING SOURCES (USES):												
Operating transfers in	0	0	0	0	0	0	0	0	40,164	0	0	40,164
Operating transfers out	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40,164</b>	<b>0</b>	<b>0</b>	<b>40,164</b>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	111,391	4,382	0	(6,094)	13,483	86,886	(79,661)	(7,721)	101,114	(13,963)	(5,023)	204,795
Fund Balance June 30, 2016	854,894	2,742	2	38,254	200,851	21,218	239,568	39,220	50,018	53,598	14,151	1,514,516
Fund Balance June 30, 2017	\$ 966,284	\$ 7,124	\$ 2	\$ 32,160	\$ 214,335	\$ 108,104	\$ 159,908	\$ 31,499	\$ 151,132	\$ 39,635	\$ 9,128	\$ 1,719,311

**CITY OF WINCHESTER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Name of Grant - Grant ID No.	Federal Expenditures
<b><u>HOMELAND SECURITY</u></b>			
Assistance to Firefighters Grant	97.044	EMW-2014-FV-90071	\$ 750,000
Total Assistance to Firefighters Grant			<u>750,000</u>
Homeland Security Grant Program	97.067	15-106	25,000
Total Homeland Security Grant Program			<u>25,000</u>
<b>TOTAL HOMELAND SECURITY</b>			<b><u>775,000</u></b>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Equitable Sharing Program	16.922	KY0250100	111,679
Total Equitable Sharing Program			<u>111,679</u>
<b>TOTAL U.S. DEPT. OF JUSTICE</b>			<b><u>111,679</u></b>
<b><u>DEPARTMENT OF TRANSPORTATION</u></b>			
Passed through Commonwealth of Kentucky			
Highway Planning and Construction	20.205	3010-012	59,710
Total Highway Planning and Construction			<u>59,710</u>
<b>TOTAL DEPARTMENT OF TRANSPORTATION</b>			<b><u>59,710</u></b>
<b><u>EPA</u></b>			
Passed through Commonwealth of Kentucky			
Pollution Control	66.605	C9994861-04	41,792
Total Performance Partnership Grants			<u>41,792</u>
<b>TOTAL EPA</b>			<b><u>41,792</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 988,181</u></b>

**Notes to the Schedule of Expenditures of Federal Awards**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Winchester, Kentucky under the programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of operations of the City of Winchester, Kentucky, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) City of Winchester, Kentucky has not applied an indirect cost rate.

## **SINGLE AUDIT 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

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, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Winchester, Kentucky's basic financial statements, and have issued our report thereon dated January 16, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Winchester, Kentucky'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, Kentucky'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Summers, McCrary & Sparks, PSC*

Winchester, Kentucky  
January 16, 2018

**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

LAURENCE T. SUMMERS  
1961-1992

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE**

To the City Commissioners  
City of Winchester, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the City of Winchester, Kentucky's (City) 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's major federal programs for the year ended June 30, 2017. City of Winchester, Kentucky'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, Kentucky'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). Those standards and 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'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, Kentucky's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Winchester, Kentucky, 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, 2017.

## Report on Internal Control over Compliance

Management of the City of Winchester, Kentucky, 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'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'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 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*

Winchester, Kentucky  
January 16, 2018

**CITY OF WINCHESTER, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Section 1 - 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  
that are not considered to be material  
weakness?              yes      X  none reported

Noncompliance material to financial  
statements noted?                                             yes      X  no

**Federal Awards**

Internal control over majority programs:

Material weakness(es) identified?                      yes      X  no

Significant deficiencies identified  
that are not considered to be material  
weakness(es)?               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>
97.044	Assistance to Firefighters Grant

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, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Section II – Financial Statement Findings**

There were no findings this year.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings this year.

**CITY OF WINCHESTER, KENTUCKY  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

There were no findings in the prior year.