

**CITY OF WINCHESTER**

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

**FOR THE YEAR ENDED JUNE 30, 2018**

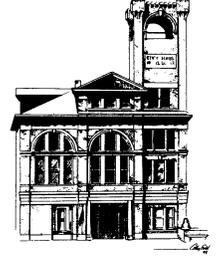
**CITY OF WINCHESTER, KENTUCKY  
JUNE 30, 2018**

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# City of Winchester



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*Finance Department*

Established 1793

January 10, 2019

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

Dear Mayor, City Commissioners, and Residents of Winchester:

We are pleased to submit the annual audited Financial Statements for the fiscal year ended June 30, 2018. These Financial Statements were prepared in conformance with *Generally Accepted Accounting Principles* (GAAP) and the reporting standards of the *Governmental Accounting Standards Board* (GASB).

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

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

The independent accounting firm of Summers, McCrary, and Sparks P.S.C., Certified Public Accountants, has reasonable assurance that these financial statements for the fiscal year ended June 30, 2018 are free of any material misstatement. Requests for Single Audit Reports should be directed to the City's Finance Department.

## PROFILE OF GOVERNMENT

The City of Winchester, Kentucky was incorporated in 1793. The city is the county seat of Clark County, which is in central Kentucky, commonly referred to as the Bluegrass Region. The City currently occupies 8.4 square miles (5,377 acres) and serves a population of 18,486 (2017 census).

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

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

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

WMU is a municipal utility enterprise fund separate from the City and which has been separately audited. A full discussion of WMU's financial activities can be found in that audit. WMU's audit was prepared by Summers, McCrary, and Sparks, PSC and was accepted by the utility commission on December 7, 2018.

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

## BUSINESS INCENTIVE PROJECTS

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

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

We now have 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.

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

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

RECIPIENT	PROGRAM	TOTAL PROJECT COST	MAX TAX INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS	AGREEMENT DATE	OCC LICENSE TAX PLEDGED	ACTIVATION DATE
Advanced Green Components LLC	KBI	\$11,960,000	\$750,000	80	40			2/23/2019
Alltech Inc	KBI	\$14,000,000	\$3,000,000	NA	40	Reso #R2012-6 6/19/2012 Term 10 yrs	1%	6/28/2014

## KEFDA projects (continued)

RECIPIENT	PROGRAM	TOTAL PROJECT COST	MAX TAX INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS	AGREEMENT DATE	OCC LICENSE TAX PLEDGED	ACTIVATION DATE
AMZN wacc 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%	1/01/2016
The Freeman Corp	KBI	\$3,440,000	\$500,000	202	32			4/28/2018
Walle Corporation	KBI	\$4,135,000	\$500,000	114	23	Order #2012-117 10/12/2012 Term - 10 yrs	1%	6/26/2016

**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 seven 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.

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

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

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

### REVENUE SHARING

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

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 ended 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 is 50%. In year two it is 60/40 percent. In year three it is 67/33 percent. This part of the agreement ended 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
2018	\$355,602
Total Payments to Date	\$1,741,570

### 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.

### 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 FY2018, the City applied for several grants. Listed below is the status of grant applications.

1. CDBG – Lincoln Street Redevelopment Project, \$1,000,000 approved (In design phase)
2. KY Homeland Security Grant cyber security software, \$17,019, completed
3. Kentucky Homeland Security Grant, Unknown Chemical Identification Monitor, \$95,000, completed
4. FEMA Assistance to Firefighters Grant, SAFER Grant three additional personnel, \$359,018, approved  
Status of Grants (continued)
5. FEMA Assistance to Firefighters Grant, \$427,500, fire engine, completed

6. Kentucky 911 Services Board, PowerPhone Emergency Medical Dispatch Software, \$60,783, completed
7. Kentucky Fire Commission, Multi-purpose Training Facility, \$100,000, completed
8. KY Homeland Security Grant, Purchase of SEGWAY, \$5,826, pending
9. KY Office of Highway Safety, \$3,989.26, Lighted Speed Sign, pending
10. US Office of Homeland Security Assistance to Firefighters Grant, Exhaust Capturing System (95/5 match) \$179,048, approved

The following grants were received prior to FY2018 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

## OTHER DEVELOPMENT

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

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

The City finished the Depot Street Project six 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 from the Greater Clark Foundation (which will provide another \$250,000).

The Daniel Boone Pioneer Festival has been in existence for 40 years. The festival is held on Labor Day weekend and it is a huge success every year. The festival showcases our local talent, artists, and "Kentucky Proud" vendors.

The City continues efforts to strengthen the downtown area. The 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 was done late 2017. The City had its 10th Beer Cheese Festival on June 09, 2018. This festival also highlights local talent, artists, and "Kentucky Proud" items. Winchester First also hosted free downtown concerts.

In the downtown area, some buildings have been bought, with interest, investment, and new business slowly taking place. Many of these buildings are historic and will be renovated according to historic preservation standards. Most of the downtown Main Street area is on the National Registry of Historic Places.

## **BONDS**

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

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.

## OTHER INFORMATION

### RETIREMENTS

The City recognized the following retirements during Fiscal Year 2018:

1. Sharon Harrison, HR/Benefits/Risk Management 27 years
2. Edward Barnes, LT Paramedic Fire/EMS, 17 years
3. Marilyn Rowe, City Clerk, 27 years
4. Rondi Leslie, Communications Officer, 21 years
5. Billy Leslie, Fire Fighter/EMT, 19 years
6. Jerry Brinegar, Public Works Street Foreman, 25 years
7. Edwin Brad Case, EMS Medical Officer, 20 years

### ELECTED OFFICIALS

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

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

### ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the dedicated services of the entire staff within the City's Finance, Human Resources and Purchasing Departments. Special thanks to Deputy City Treasurer, Michelle Lucas; Governmental Management Advisor, Betty Pendergrass; Summers, McCrary, and Sparks, P.S.C. Staff.

Respectfully submitted,



Kate O. Jennings  
Finance Director

## **INDEPENDENT AUDITOR'S REPORT**

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

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MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
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JUSTIN B. NICHOLS, CPA  
MATTHEW T. WADE, 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, 2018, 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, 2018, 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.

### ***Change in Accounting Principle***

As described in Note 22 to the financial statements, in 2018, the City adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13-26, the single employer defined pension trust schedules and notes on page 89, and the cost-sharing defined pension trust and other postretirement employee benefit plan schedules and notes on pages 90-93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Winchester, Kentucky's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, 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 10, 2019

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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The management team of the City of Winchester presents this Management Discussion and Analysis to outline the financial highlights and provide their analysis of the financial reports by explaining changes in the financial data for the year ended June 30, 2018 (FY 2018). This narrative is intended to disclose any known significant events or decisions that affect the financial condition of the City. In addition, supplementary information is presented in other sections of this report 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.

Some of the key financial indicators for FY 2018 include the following:

- The City's net financial position continued to decline as postemployment benefits escalate. Net financial position declined by \$9,700,000 as of June 30, 2018.
- In addition to the decrease caused by operations, the net position also declined as the City implemented GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and recognized net OPEB liabilities of \$9,200,000, plus deferred outflows and inflows of resources of \$3,200,000.
- The fund statements present financial information that is similar to the budget planning reports. General Fund reported a total fund balance of \$6,500,000 with \$600,000 committed to the self-insurance funds and \$2,200,000 assigned for funding a portion of the FY2019 budget.
- Unassigned fund balance in the General Fund was \$3,700,000 as of June 30, 2018, which represents 21.2% of General Fund expenditures and provides a reserve for future budget needs.
- General Fund balance declined \$62,522 for FY 2018.
- The Capital Equipment fund uses a portion of the occupational license fee to finance capital improvements projects for the City. During FY 2018, this fund provided resources for \$2,100,000 of capital asset purchases and \$400,000 in debt retirement and reduced the City's outstanding long-term capital leases to \$1,900,000 from \$2,300,000 in FY 2018.

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

Service to our citizens includes central dispatching (county-wide), police, fire, emergency medical services (county-wide), public works, and administrative departments. All departments make every effort to use financial resources effectively and efficiently. It 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 FY2015-18. The City's self-insured employee health

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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 CERS-County Employees Retirement System which is administered by the Kentucky Retirement System. In 2018, the Kentucky General Assembly imposed a 12% cap on contribution rate increases for local government employers participating in CERS to allow a phase-in of the significant increases proposed by the 2017 Actuarial Study for CERS beginning in FY2019. The table below shows the trend in employer contribution rates:

<b>CERS RATES</b>		
	<u>Non-Hazardous</u>	<u>Hazardous</u>
FY2019	21.48%	35.35%
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%

**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.

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

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

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

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

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

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

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

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**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.

The following table summarizes the Statement of Net Position as of June 30, 2018 and 2017:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Current and other assets	\$ 10,136,640	\$ 11,296,869
Capital assets	16,044,473	15,085,794
Total assets	<u>26,181,113</u>	<u>26,382,663</u>
Deferred Outflows of Resources		
Pensions	9,738,514	4,488,787
OPEB	3,753,668	
Total Deferred Outflows of Resources	<u>13,492,182</u>	<u>4,488,787</u>
Long-term debt outstanding	1,901,701	2,306,438
Net pension liabilities	32,822,985	19,856,049
Net OPEB liabilities	9,153,935	-
Other liabilities	1,515,628	1,404,654
Total liabilities	<u>45,394,249</u>	<u>23,567,141</u>
Deferred Inflows of Resources		
Pensions	1,872,187	471,730
OPEB	574,708	
Total Deferred Inflows of Resources	<u>2,446,895</u>	<u>471,730</u>
Net position:		
Net investment in capital assets	14,142,772	12,779,356
Restricted	1,211,233	1,133,670
Unrestricted	(23,521,855)	(7,080,447)
Total Net Position	<u>\$ (8,167,850)</u>	<u>\$ 6,832,579</u>

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Current and Other Assets decreased approximately \$1,200,000. Capital assets increased \$1,000,000. Part of this increase includes the new pumper fire truck and projects shown below.

1. Maple/Boone storm water projects (finished FY 2018)
2. *Mast Arm Project (finished FY2018)*
3. *Community Splash Pad*
4. *Washington/Franklin Avenue storm water project*
5. *Lykins Park Trail*
6. *Sphar Building*

The liability for the Winchester single-employer plan for the Policemen's and Firemen's Defined Benefit plan also increased because KRS Board revised key assumptions for the 2017 actuarial study. The amounts reported on the statement of net position include amounts for both the cost-sharing County Employees Retirement System plan and the city's single-employer Policemen's and Firemen's Pension Fund. The following table outlines the components of these balances as of June 30, 2018, by plan:

<u>Describe</u>	<u>CERS</u>	<u>P&amp;F</u>	<u>Total City</u>	<u>WMU</u>
Pension Plans:				
Deferred Outflows	\$ 9,640,012	\$ 98,502	\$ 9,738,514	\$ 2,376,120
Deferred Inflows	1,872,187	-	1,872,187	667,028
Net Pension Liability	31,623,872	1,199,113	32,822,985	7,097,486
Pension Expense	10,571,352	173,248	10,744,600	985,752
OPEB Plans:				
Deferred Outflows	\$ 3,753,668	\$ -	\$ 3,753,668	\$ 675,802
Deferred Inflows	574,708	-	574,708	127,629
Net OPEB Liability	9,153,935	-	9,153,935	2,437,660
OPEB Expense	1,379,470	-	1,379,470	117,103

The City's unrestricted net position continues to reflect the impact of the city's proportionate share of net pension liabilities. In FY18, this impact was an additional decrease of \$6,600,000 as the city implemented the reporting provisions of GASBS No. 75 and added deferred inflows and outflows of resources and the net OPEB liability to the City's statement of net position. In addition, the prior year net position was reduced by \$5,200,000 to reflect the balances as of July 1, 2017 as required by GASBS No. 75. The deficit position in net position reflects the city's responsibility to provide future resources to fund the pension liabilities. It is important to note that these pension and OPEB liabilities are currently being amortized over a closed 30-year period and this amortization is included in the annual actuarially determined contribution rates established by the Kentucky Retirement System Board of Trustees. As we noted earlier, the Ky General Assembly has approved a phase-in of contribution rates for local government employers that limits annual increases to 12% over the next 5 years to mitigate the short-term impact of the significant increases imposed for FY19. The City is not required to provide additional resources to retire this liability.

**Statement of Activities**

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

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

The following table summarizes the Statement of Activities for the City for 2018 and 2017, using the traditional operating format:

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,230,054	\$ 1,211,283
Grant funding	2,625,144	3,280,519
General revenues:		
Property taxes	2,552,499	2,374,881
License fees and permits	1,164,928	1,086,639
Payroll taxes	9,112,057	9,033,316
Insurance premium tax	2,490,735	2,348,985
Transient room tax	145,193	134,776
Other taxes	116,404	116,317
Interest and investment earnings	165,106	81,486
Parking fines	1,390	980
Other local revenues	216,228	290,213
Total Revenues	<u>19,819,738</u>	<u>19,959,395</u>
Program Expenses:		
General government	4,875,094	3,951,077
Public Protection		
Dispatch	1,713,859	1,143,795
Police	7,472,762	4,280,887
Fire	8,219,751	4,814,434
EMS	3,880,113	2,469,369
Public Services	2,260,416	1,760,385
Intergovernmental services	1,042,120	974,538
Interest on long-term debt	76,124	70,295
Total Expenses	<u>29,540,239</u>	<u>19,464,780</u>
Excess (deficiency) before transfers and special items	(9,720,501)	494,615
Loss on disposal of fixed assets	(26,237)	23,545
Net increase (decrease) in net position	<u>\$ (9,746,738)</u>	<u>\$ 518,160</u>

Total Revenues decreased \$139,657, mostly because there were fewer federal grant awards in FY18 than in FY17 (\$600,000). Other revenues had modest increases.

Total expenses increased \$10,000,000. FY18 includes recognition of OPEB expenses that were not recognized prior to the implementation of GASBS No. 75, as we have discussed earlier.

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The following table summarizes the Governmental Funds Balance Sheet for 2018 and 2017:

<b>Governmental Funds Balance Sheet</b>			
<b>June 30,</b>			
	<b><u>2018</u></b>		<b><u>2017</u></b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 7,851,851	\$	8,916,470
Accounts Receivable	2,284,789		2,373,037
Due from Other Funds	134,411		46,798
Prepaid Expenses			7,363
<b>Total Assets</b>	<b><u>\$ 10,271,051</u></b>	<b>\$</b>	<b><u>11,343,668</u></b>
<b>Liabilities:</b>			
Accounts Payable	\$ 97,115	\$	162,679
Due to Other Funds	134,411		46,798
Accrued TIF Incentive Payable	120,278		64,843
Accrued Payroll & Related Liabilities	286,682		274,384
<b>Total Liabilities</b>	<b><u>638,486</u></b>		<b><u>548,705</u></b>
Deferred Inflows of Resources-Unavailable Property Taxes	16,214		-
<b>Fund Balances:</b>			
Restricted	1,211,235		1,133,670
Committed	2,563,726		3,873,921
Assigned	2,167,497		-
Unassigned	3,673,892		5,787,371
<b>Total Fund Balances</b>	<b><u>9,616,351</u></b>		<b><u>10,794,962</u></b>
<b>Total Liabilities &amp; Fund Balance</b>	<b><u>\$ 10,271,051</u></b>	<b>\$</b>	<b><u>11,343,668</u></b>

Cash and Cash Equivalents decreased \$1,000,000 because of the \$400,000 expenditures for the purchase of the ambulance and increase in expenses over revenues. Capital Equipment cash decreased \$700,000 which includes the ambulance purchase and purchase of additional budgeted large equipment for public works such as a new dump truck, EMS heavy equipment, and the additional cost of the completion of the Fire Training Tower.

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

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

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

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Restricted funds increased \$77,565, representing additional grant funds for the Soccer Park Complex.

Committed funds decreased \$1,300,000. Capital Equipment Fund decreased \$1,200,000 as capital expenditures exceeded the OLF revenues collected for capital projects in FY18. The committed balance for health insurance decreased \$110,000 due to the insurance committee comparing and negotiating price contracts. There were minimal changes in other nonmajor funds.

Assigned Funds increased \$2,100,000 to recognize the portion of the 2018 fund balance that was used to finance appropriations in the FY19 budget. This assignment was not reported in the FY17 financial report, but the FY18 budget included the use of \$2,000,000 to cover the budgeted shortfall. The actual operating shortfall for FY18 was only \$62,522.

Unassigned Fund Balance (General Fund) decreased \$2,100,000 with the assignment to cover the FY19 budget shortfall that was not recognized in FY17.

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

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances show revenues and expenses using the modified accrual basis of accounting. There are several significant differences, including depreciation expenses (\$1,400,000) instead of capital outlay (\$2,400,000) and principal payments (\$400,000), and accrued pension and OPEB expenses (\$12,100,000) instead of cash contributions (\$2,300,000). The FY18 change in governmental fund balance was a decrease of \$1,200,000 while the decrease in governmentwide net position for governmental activities was \$9,700,000.

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

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The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2018 and 2017:

	<b>Governmental Funds</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
REVENUES:		
Taxes	\$ 14,400,676	\$ 14,008,276
Licenses & Permits	1,164,928	1,086,639
Charges for Services	1,230,054	1,211,283
Fines	1,390	980
Intergovernmental	2,625,144	3,280,517
Investment Income	165,106	81,486
Other	216,226	290,213
TOTAL REVENUES	<u>19,803,524</u>	<u>19,959,393</u>
General Government	3,264,998	3,214,273
Public Safety:		
Dispatch	1,088,132	1,074,767
Police	4,279,339	3,891,299
Fire	4,525,766	4,206,283
EMS	2,251,693	2,178,277
Public Works	1,603,844	1,632,348
Intergovernmental	1,042,120	974,538
Capital	2,449,881	2,157,444
Debt service principal	404,737	354,198
Debt service interest	76,124	70,295
TOTAL EXPENDITURES	<u>20,986,634</u>	<u>19,753,723</u>
Excess (Deficit) of Revenues over Expenditures	<u>(1,183,110)</u>	<u>205,670</u>
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term borrowing		1,039,988
Gain/loss on sale of capital assets	4,500	23,727
Operating transfers in	115,004	40,164
Operating transfers out	(115,004)	(40,164)
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,500</u>	<u>1,063,715</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(1,178,611)</u>	<u>1,269,385</u>
Fund Balance, beginning	10,794,962	9,525,577
Fund Balance, ending	<u>\$ 9,616,351</u>	<u>\$ 10,794,962</u>

The difference between revenues and expenditures shows how total fund balance has changed since last year. Total governmental fund balances decreased \$1,200,000. General Fund decreased because of an operating deficit of \$62,522, Capital Equipment declined \$1,200,000 and the nonmajor funds ended the fiscal year with a surplus of \$35,477.

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Property taxes contributed to the available resources with an increase of \$400,000 in FY18, but a decline in intergovernmental revenues (\$700,000) offset those gains and revenues declined from FY17 to FY18. The decline in revenues through intergovernmental revenues is due in part to lack of incoming grant revenues.

Expenditures increased \$1,200,000 across all governmental funds, with \$1,100,000 increase in General, \$600,000 increase in Capital Equipment, and a decrease of \$500,000 in nonmajor funds. FY18 contributions to CERS increased personnel costs by \$200,000 and most of that increase affected public safety operations (police, fire, and EMS), additional increases were due to uniforms and equipment to outfit and train these additional public safety employees. An additional \$600,000 was spent in the Capital Equipment Fund for the emergency repair of the Main St sinkhole, to fund the completion of the Fire Training Tower and to purchase additional heavy equipment that was budgeted. Nonmajor fund expenditures declined with fewer grant projects in FY18.

**Capital and Operating Activities**

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

	<b>FY 2018 Governmental Funds</b>		
	<b>Capital</b>	<b>Operating</b>	<b>Total</b>
Revenues	\$ 2,145,514	\$ 17,662,510	\$ 19,808,024
Expended	(2,854,618)	(18,132,016)	(20,986,634)
Net	<u>\$ (709,104)</u>	<u>\$ (469,507)</u>	<u>\$ (1,178,611)</u>
	<b>FY 2017 Governmental Funds</b>		
	<b>Capital</b>	<b>Operating</b>	<b>Total</b>
Revenues	\$ 3,557,093	\$ 17,466,015	\$ 21,023,108
Expended	(2,511,642)	(17,242,081)	(19,753,723)
Net	<u>\$ 1,045,451</u>	<u>\$ 223,934</u>	<u>\$ 1,269,385</u>

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance) and capital grants from federal, state, and county grant awards. This revenue decreased with fewer grant projects (\$400,000) that help finance some of the City's capital projects and no new borrowing in FY18 (\$1,000,000). Capital expenditures increased \$300,000 with a \$600,000 increase in Capital Equipment and a decrease of \$300,000 in the nonmajor funds (grant projects), as we discussed earlier.

**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 Pages 32 - 33 with reports for the General Fund and Capital Equipment Fund, a major special revenue fund.

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Actual General Fund revenue exceeded budget estimates by about \$470,000. Payroll taxes estimates exceeded budget by \$20,000. Occupational Tax revenues exceeded budget by about \$35,000 as more jobs were added to the local economy. Insurance Premium taxes exceeded budget by about \$190,000.

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 \$60,000. These increased revenues were offset by decreases in other revenues.

Most of the General Fund under-budget revenue difference (under budget by \$323,000) can be attributed to:

1. Ad Valorem Tax under budget by \$66,350
2. Payroll Tax under budget \$19,300
3. Bank Shares under budget \$7,600
4. Kentucky Utility Franchise under budget \$21,000
5. Reimbursable Grant Income under budget \$192,383
6. Miscellaneous Income under budget \$15,800

Public Works expenses came in under budget because three projects had not been completed (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.

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

The City approved two 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 \$5,000 to General Fund EMS Department for paramedic School training and travel
2. Added \$57,800 to General Fund Transfers
3. Added \$400,000 Capital Equipment Fund Revenue for Fire Truck Loan Proceeds
4. Added \$670,000 for Various Approved Grants

The second budget amendment added the following:

1. Added \$110,000 to General Fund Police for additional wages, overtime, insurance and equipment
2. Added \$57,800 to General Fund for Animal Shelter Transport Vehicle
3. Added \$240,00 Capital Equipment Fund for Storm Sewer Repair
4. Added \$10,000 Capital Equipment Fund Police
5. Added \$80,000 Capital Equipment Fire Training Concrete Pad
6. Added \$10,600 Police Special Fund
7. Added \$6,400 LGEA Fund Special Projects
8. Added \$6,200 LGEA Revenue to adjust account balance forward
9. Added \$1,000,000 to Grants for Lincoln Street Project (CDBG Grant)

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**LONG-TERM DEBT**

The City finances a variety of equipment purchases with capital lease financing. During FY 2018, no additional leases were issued to finance additional major equipment purchases. The city retired principal of \$400,000 of the outstanding leases issued in prior years during FY18. More information about long-term debt is explained in Note 8 of the Notes to the Financial Statements.

**MAJOR CAPITAL PROJECTS FOR THE YEAR**

Capital assets provide an important resource for supporting a variety of governmental programs and services. The City uses local tax revenues as well as federal and state grant funding to help finance critical infrastructure and public property improvements. The following table summarizes the City's governmental capital assets (net of accumulated depreciation) as of June 30, 2018 and 2017.

	FY 2018	FY 2017
Construction in progress	\$ 1,093,746	\$ 886,042
Land	2,152,683	2,152,683
Buildings	2,794,748	2,425,620
Vehicles	2,300,653	2,051,255
Furniture & fixtures	13,662	26,731
Equipment	1,587,242	1,551,844
Infrastructure	6,101,740	5,991,619
Total Capital Assets, Net	\$ 16,044,473	\$ 15,085,794

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

1. Fulton Road
2. Seventh Street
3. Soccer Park
4. TEA-21 Sphar Building Rehabilitation
5. Lykins Park Trail
6. Community Splash Pad
7. Lincoln Street a CDBG Urban Renewal Project

Other major capital projects during FY18 include the following:

- *Buildings and Land*—Construction of the Fire Training Tower at Station 3 for a cost of approximately \$300,000.
- *Storm Sewer Projects*—A sinkhole developed in front of 150 N Main St resulting in emergency repairs of \$242,055.
- *Vehicles*—The City completed the acquisition of an ambulance remount in FY18 (\$400,000) and sold older vehicles of \$100,000 for a net increase in vehicles of \$300,000.

**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.

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Economic development continues to increase. We began the fiscal year with a 4.7% unemployment rate and ended the fiscal year with a 3.9% 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 decreased. 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 2017. The rates were the same as the previous year. The FY2018 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) post-retirement benefit costs; and (2) health insurance costs.

During our FY2018 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2018, 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.

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.

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.

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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**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.

Kate Jennings  
Finance Director  
32 Wall Street, P.O. Box 4135  
Winchester, KY 40392-4135  
859-355-1603  
[kjennings@winchesterky.com](mailto:kjennings@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

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

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF NET POSITION**  
June 30, 2018

	<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	\$ 7,851,851	\$ 7,851,851	\$ 9,429,690
Restricted Cash and Cash Equivalents	-	-	342,778
Accounts Receivable			
Taxes	1,828,817	1,828,817	-
Accounts, net	122,707	122,707	1,974,870
Intergovernmental	333,265	333,265	-
Other	-	-	17,382
SDC Receivables	-	-	483,000
Accrued Interest	-	-	450
Prepaid Expenses	-	-	555,769
Inventories	-	-	436,859
<b>Total Current Assets</b>	<b>10,136,640</b>	<b>10,136,640</b>	<b>13,240,798</b>
<b>Restricted Assets</b>			
Cash and Cash Equivalents	-	-	26,617,302
<b>Total Restricted Assets</b>	<b>-</b>	<b>-</b>	<b>26,617,302</b>
<b>Noncurrent Assets</b>			
Construction in Progress	1,093,746	1,093,746	3,784,280
Land	2,152,683	2,152,683	1,519,050
Net Capital Assets	12,798,044	12,798,044	108,664,315
<b>Total Noncurrent Assets</b>	<b>16,044,473</b>	<b>16,044,473</b>	<b>113,967,645</b>
<b>TOTAL ASSETS</b>	<b>\$ 26,181,113</b>	<b>\$ 26,181,113</b>	<b>\$ 153,825,745</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	\$ 9,738,514	\$ 9,738,514	\$ 2,376,120
OPEB	3,753,668	3,753,668	675,802
<b>Total Deferred Outflows of Resources</b>	<b>\$ 13,492,182</b>	<b>\$ 13,492,182</b>	<b>\$ 3,051,922</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 97,115	\$ 97,115	\$ 728,800
Accrued Liabilities & TIF Incentive Payable	120,278	120,278	155,208
Accrued Payroll & Related Liabilities	286,682	286,682	-
Customer Deposits	-	-	135,538
Accrued Interest Payable	-	-	87,642
Incurred but Not Reported Health Claims	247,688	247,688	-
Current Portion of Accrued Sick Leave	24,075	24,075	-
Current Portion of Bonds	-	-	3,759,188
Current portion of Lease Obligations	341,550	341,550	-
<b>Total Current Liabilities</b>	<b>1,117,388</b>	<b>1,117,388</b>	<b>4,866,376</b>
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Lease Obligations	1,560,151	1,560,151	-
Noncurrent Portion of Bonds	-	-	72,607,604
Noncurrent Portion of Accrued Sick Leave	739,790	739,790	532,705
Net Pension Liability	32,822,985	32,822,985	7,097,486
Net OPEB Liability	9,153,935	9,153,935	2,437,660
<b>Total Noncurrent Liabilities</b>	<b>44,276,861</b>	<b>44,276,861</b>	<b>82,675,455</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 45,394,249</b>	<b>\$ 45,394,249</b>	<b>\$ 87,541,831</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	\$ 1,872,187	\$ 1,872,187	\$ 667,028
OPEB	574,708	574,708	127,629
<b>Total Deferred Inflows of Resources</b>	<b>\$ 2,446,895</b>	<b>\$ 2,446,895</b>	<b>\$ 794,657</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 14,142,772	\$ 14,142,772	\$ 37,600,853
Restricted			
Restricted for Capital Projects	1,211,233	1,211,233	24,422,826
Restricted for Bond Debt Service	-	-	2,390,958
Unrestricted	(23,521,855)	(23,521,855)	4,126,542
<b>TOTAL NET POSITION</b>	<b>\$ (8,167,850)</b>	<b>\$ (8,167,850)</b>	<b>\$ 68,541,179</b>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

FUNCTIONS/PROGRAMS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION						COMPONENT UNIT
	PROGRAM REVENUES			PRIMARY GOVERNMENT			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (4,875,094)	\$ 90,833	\$ 178,151	\$ 75,000	\$ (4,531,110)	\$ (4,531,110)	
Public Safety:							
Dispatch	(1,713,859)	-	665,869	-	(1,047,990)	(1,047,990)	
Police	(7,472,762)	-	285,270	-	(7,187,492)	(7,187,492)	
Fire	(8,219,751)	-	270,267	100,000	(7,849,484)	(7,849,484)	
EMS	(3,880,113)	1,108,478	502,835	-	(2,268,800)	(2,268,800)	
Public Works	(2,260,416)	30,743	-	527,252	(1,702,421)	(1,702,421)	
Intergovernmental Services	(1,042,120)	-	20,500	-	(1,021,620)	(1,021,620)	
Interest on Long-Term Debt	(76,124)	-	-	-	(76,124)	(76,124)	
Total Governmental Activities	<u>(29,540,239)</u>	<u>1,230,054</u>	<u>1,922,892</u>	<u>702,252</u>	<u>(25,685,041)</u>	<u>(25,685,041)</u>	
Total Primary Government	<u>\$ (29,540,239)</u>	<u>\$ 1,230,054</u>	<u>\$ 1,922,892</u>	<u>\$ 702,252</u>	<u>\$ (25,685,041)</u>	<u>\$ (25,685,041)</u>	
Component Unit							
Winchester Municipal Utilities	\$ (17,578,102)	\$ 16,344,264	\$ -	\$ -	\$ -	\$ -	\$ (1,233,838)
			General Revenues:				
			Taxes:				
			Property	\$ 2,552,499	\$ 2,552,499	\$ -	-
			Licenses, Franchise & Permits	1,164,928	1,164,928	-	-
			Payroll	9,112,057	9,112,057	-	-
			Insurance Premium	2,490,735	2,490,735	-	-
			Hotel/Motel Room Tax	145,193	145,193	-	-
			Telecommunications Excise Tax	116,404	116,404	-	-
			Investment/Interest Income	165,106	165,106		183,486
			Parking Fines	1,390	1,390		-
			Gain (Loss) on disposal of fixed assets	(26,237)	(26,237)		56,293
			Other Local Revenues	216,228	216,228		182,290
			Total General Revenues	<u>\$ 15,938,303</u>	<u>\$ 15,938,303</u>	<u>\$ 422,069</u>	
			Capital Contributions	-	-		315,839
			Change in Net Position	(9,746,738)	(9,746,738)		(495,930)
			Net Position June 30, 2017	6,818,361	6,818,361		70,809,493
			Cumulative Change GASB 75-Note 22	(5,239,473)	-		(1,772,384)
			Net Position June 30, 2017 - Restated	1,578,888	6,314,419		69,037,109
			Net Position June 30, 2018	<u>\$ (8,167,850)</u>	<u>\$ (2,928,377)</u>	<u>\$ 68,541,179</u>	

The accompanying notes are an integral part of this statement

## **FUND FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018**

	<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	\$ 4,683,163	\$ 1,398,138	\$ 1,770,550	\$ 7,851,851
Accounts Receivable				
Taxes (net of allowance for doubtful accounts \$38,464)	1,828,817	-	-	1,828,817
Accounts, Net of allowance for doubtful accounts (\$536,988)	122,707			122,707
Intergovernmental	200,228	8,125	124,912	333,265
Due from Other Funds	125,577	-	8,834	134,411
<b>TOTAL ASSETS</b>	<b>\$ 6,960,492</b>	<b>\$ 1,406,263</b>	<b>\$ 1,904,296</b>	<b>\$ 10,271,051</b>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 52,302	\$ 24,450	\$ 20,363	\$ 97,115
Due to Other Funds	1,698	3,568	129,145	134,411
Accrued TIF Incentive Payable	120,278	-	-	120,278
Accrued Payroll & Related Liabilities	286,682	-	-	286,682
<b>TOTAL LIABILITIES</b>	<b>460,960</b>	<b>28,018</b>	<b>149,508</b>	<b>638,486</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable Property Taxes	16,214	-	-	16,214
<b>FUND BALANCES:</b>				
Restricted Fund Balance	-	-	1,211,235	1,211,235
Committed Fund Balance	641,929	1,378,245	543,552	2,563,726
Assigned Fund Balance	2,167,497	-	-	2,167,497
Unassigned Fund Balance	3,673,892	-	-	3,673,892
<b>TOTAL FUND BALANCES</b>	<b>6,483,318</b>	<b>1,378,245</b>	<b>1,754,788</b>	<b>9,616,351</b>
			\$	
<b>TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 6,960,492</b>	<b>\$ 1,406,263</b>	<b>1,904,296</b>	<b>\$ 10,271,051</b>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2018**

Total Governmental Fund Balances	\$ 9,616,351
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	16,044,474
Deferred Inflows related to unavailable revenues are reported in the fund financial statements because they will be recognized in future periods but reported as revenue in the government-wide statements	16,214
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods	(1,872,187)
Deferred Inflows related to OPEB are not reported in the fund financial statements because they will be recognized in future periods	(574,708)
Deferred Outflows related to pension are not reported in the fund financial statements because they do not represent current financial resources	9,738,514
Deferred Outflows related to OPEB are not reported in the fund financial statements because they do not represent current financial resources	3,753,668
Certain liabilities are not reported in the fund statements because they are not due and payable, but these liabilities are included in the statement of net position	
Long-term debt	(1,901,701)
Incurred but Not Reported Health Claims	(247,688)
Compensated Absences Liability	(763,866)
Net Pension Liability--Cost-sharing CERS Plan	(31,623,872)
Net OPEB Liability--Cost-sharing CERS Plan	(9,153,935)
Net Pension Liability--Single-employer Police & Firefighters Plan	(1,199,113)
Net Position of Governmental Activities	<u>\$ (8,167,850)</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>GENERAL</u>	<u>CAPITAL EQUIPMENT</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES:</b>				
Taxes	\$ 13,474,003	\$ 1,131,348	\$ 145,193	\$ 14,750,544
Licenses, Franchises & Permits	815,060	-	-	815,060
Charges for Services	1,230,054	-	-	1,230,054
Fines	1,390	-	-	1,390
Intergovernmental	1,652,185	276,278	696,681	2,625,144
Investment Income	94,486	40,505	30,115	165,106
Other	60,471	-	155,755	216,226
<b>TOTAL REVENUES</b>	<u>17,327,649</u>	<u>1,448,131</u>	<u>1,027,744</u>	<u>19,803,524</u>
<b>EXPENDITURES:</b>				
City Commission	786,009	212	-	786,221
City Attorney	35,215	-	-	35,215
City Manager	505,618	1,528	-	507,146
Finance Department	456,611	1,528	-	458,139
Planning Department	423,574	-	1,173	424,747
Main Street Department	88,979	-	88,758	177,737
Engineering	65,550	-	-	65,550
Administration	810,243	-	-	810,243
Central Communications	1,084,048	4,084	-	1,088,132
Police Department	4,139,737	4,837	134,765	4,279,339
Fire Department	4,511,738	4,975	9,053	4,525,766
EMS Division	2,249,110	2,583	-	2,251,693
Public Works	1,233,518	864	369,462	1,603,844
Intergovernmental	895,352	-	146,768	1,042,120
Capital	-	2,096,157	353,724	2,449,881
Debt service principal	-	404,737	-	404,737
Debt service interest	-	76,124	-	76,124
<b>TOTAL EXPENDITURES</b>	<u>17,285,302</u>	<u>2,597,629</u>	<u>1,103,703</u>	<u>20,986,634</u>
Excess (Deficit) of Revenues over Expenditures	<u>42,347</u>	<u>(1,149,498)</u>	<u>(75,959)</u>	<u>(1,183,111)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Gain/loss on sale of capital assets	3,000	1,500	-	4,500
Infrastructure contributions	-	-	-	-
Operating transfers in	-	-	115,004	115,004
Operating transfers out	(107,868)	(3,568)	(3,568)	(115,004)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(104,868)</u>	<u>(2,068)</u>	<u>111,436</u>	<u>4,500</u>
Net Change in Fund Balance	(62,522)	(1,151,566)	35,477	(1,178,611)
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>
Fund Balance June 30, 2018	<u>\$ 6,483,318</u>	<u>\$ 1,378,245</u>	<u>\$ 1,754,788</u>	<u>\$ 9,616,351</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,178,611)
Amounts reported for governmental activities in the statement of activities are different because:	
Unavailable taxes are not recognized in the fund statements because they are not current financial resources, but they are recognized in the statement of activities	16,214
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.	2,449,881
Loss on disposal of capital assets	(30,737)
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services	(1,460,463)
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	(133,687)
Cost-sharing County Employees Retirement System	(8,969,765)
OPEB liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Cost-sharing County Employees Retirement System	(735,502)
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.	(98,325)
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.	(10,480)
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.	404,737
Change in Net Position of Governmental Activities	<u>\$ (9,746,738)</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>GENERAL FUND</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		<b>Favorable (Unfavorable)</b>
<b>REVENUES:</b>				
Taxes	\$ 12,764,500	\$ 12,764,400	\$ 13,474,003	\$ 709,603
Licenses, Franchise & Permits	1,105,000	1,105,000	815,060	(289,940)
Charges for Services	1,100,600	1,100,600	1,230,054	129,454
Fines	1,000	1,000	1,390	390
Intergovernmental	1,795,000	1,795,000	1,652,185	(142,815)
Investment Income	40,000	40,000	94,486	54,486
Other	50,000	50,000	60,471	10,471
<b>TOTAL REVENUES</b>	<u>16,856,100</u>	<u>16,856,000</u>	<u>17,327,649</u>	<u>471,649</u>
<b>EXPENDITURES:</b>				
General Government	3,623,000	3,623,000	3,171,799	451,201
Central Communications	1,370,000	1,370,000	1,084,048	285,952
Police Department	4,052,000	4,262,000	4,139,737	122,263
Fire Department	4,870,000	4,870,000	4,511,738	358,262
EMS Division	2,584,000	2,589,000	2,249,110	339,890
Public Works	1,586,000	1,586,000	1,233,518	352,482
Intergovernmental	839,000	908,800	895,352	13,448
Capital	-	-	-	-
Debt service principal	-	-	-	-
Debt service interest	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>18,924,000</u>	<u>19,208,800</u>	<u>17,285,302</u>	<u>1,923,498</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,067,900)</u>	<u>(2,352,800)</u>	<u>42,347</u>	<u>2,395,147</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds of long-term debt	-	-	-	-
Gain or loss on sale of capital assets	-	-	3,000	(3,000)
Infrastructure contributions	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(107,868)	107,868
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>-</u>	<u>-</u>	<u>(104,868)</u>	<u>104,868</u>
<b>Net Change in Fund Balance</b>	<u>(2,067,900)</u>	<u>(2,352,800)</u>	<u>(62,522)</u>	<u>2,500,015</u>
<b>Fund Balance June 30, 2017</b>	<u>4,913,730</u>	<u>4,914,000</u>	<u>6,545,840</u>	<u>1,631,840</u>
<b>Fund Balance June 30, 2018</b>	<u>\$ 2,845,830</u>	<u>\$ 2,561,200</u>	<u>\$ 6,483,318</u>	<u>\$ 4,131,855</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>SPECIAL REVENUE FUND</b>			
	<b>(CAPITAL EQUIPMENT FUND)</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE Favorable (Unfavorable)</b>
<b>ORIGINAL</b>	<b>FINAL</b>			
REVENUES:				
Taxes	\$ 1,150,000	\$ 1,150,000	\$ 1,131,348	\$ (18,652)
Licenses & Permits	-	-	-	-
Charges for Services	-	-	-	-
Fines	-	-	-	-
Intergovernmental	261,700	261,700	276,278	14,578
Investment Income	25,000	25,000	40,505	15,505
Other	5,000	5,000	-	(5,000)
<b>TOTAL REVENUES</b>	<b>1,441,700</b>	<b>1,441,700</b>	<b>1,448,131</b>	<b>6,431</b>
EXPENDITURES:				
General Government	-	-	3,268	(3,268)
Central Communications	-	-	4,084	(4,084)
Police Department	-	-	4,837	(4,837)
Fire Department	-	-	4,975	(4,975)
EMS Division	-	-	2,583	(2,583)
Public Works	-	-	864	(864)
Capital	1,600,900	2,600,900	2,096,157	504,743
Debt service principal	405,100	405,100	404,737	363
Debt service interest	73,300	73,300	76,124	(2,824)
<b>TOTAL EXPENDITURES</b>	<b>2,079,300</b>	<b>3,079,300</b>	<b>2,597,629</b>	<b>481,672</b>
Excess (Deficit) of Revenues over Expenditures	<u>(637,600)</u>	<u>(1,637,600)</u>	<u>(1,149,498)</u>	<u>488,102</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	-	400,000	-	(400,000)
Gain/loss on sale of capital assets	5,000	5,000	1,500	(3,500)
Infrastructure contributions	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(3,568)	(3,568)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>5,000</b>	<b>405,000</b>	<b>(2,068)</b>	<b>(407,068)</b>
Net Change in Fund Balance	(632,600)	(1,232,600)	(1,151,566)	81,034
Fund Balance June 30, 2017	<u>2,034,000</u>	<u>2,034,000</u>	<u>2,529,811</u>	<u>495,811</u>
Fund Balance June 30, 2018	<u>\$ 1,401,400</u>	<u>\$ 801,400</u>	<u>\$ 1,378,245</u>	<u>\$ 576,845</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND (COMPONENT UNIT)**  
**June 30, 2018**

	<b>ENTERPRISE FUND</b>
<b>ASSETS:</b>	
Current Assets	
Cash and Cash Equivalents	\$ 9,429,690
Restricted Cash and Cash Equivalents	342,778
Accrued Interest, Restricted	450
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$51,597	1,974,870
SDC Assessments Receivable	483,000
Other Accounts Receivable	17,382
Materials and Supplies	436,859
Prepaid Expenses	555,769
<b>Total Current Assets</b>	<b>13,240,798</b>
Restricted Assets	
Cash and Cash Equivalents	26,617,302
<b>Total Restricted Assets</b>	<b>26,617,302</b>
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	108,664,315
Land	1,519,050
Construction in Progress	3,784,280
<b>Total Property, Plant and Equipment</b>	<b>113,967,645</b>
<b>TOTAL ASSETS</b>	<b>\$ 153,825,745</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	\$ 2,376,120
OPEB	675,802
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,051,922</b>
<b>LIABILITIES:</b>	
Current Liabilities	
Accounts Payable	\$ 728,800
Other Accrued Liabilities	155,208
Customer Deposits	135,538
Accrued Interest Payable	87,642
Current Portion of Long-Term Debt	3,759,188
<b>Total Current Liabilities</b>	<b>4,866,376</b>
<b>NONCURRENT LIABILITIES</b>	
Compensated Absences	532,705
Noncurrent Portion of Long-Term Debt	72,607,604
Net Pension Liability	7,097,486
Net OPEB Liability	2,437,660
<b>Total Noncurrent Liabilities</b>	<b>82,675,455</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 87,541,831</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	\$ 667,028
OPEB	127,629
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 794,657</b>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	37,600,853
Restricted for Capital Projects (Expendable)	24,422,826
Restricted for Bond Debt Service (Expendable)	2,390,958
Unrestricted	4,126,542
<b>TOTAL NET POSITION</b>	<b>\$ 68,541,179</b>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND (COMPONENT UNIT)**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<b>ENTERPRISE FUND</b>
<b>OPERATING REVENUES:</b>	
Water	\$ 5,093,741
Wastewater	7,593,820
Solid Waste	3,598,118
Transfer Station	58,585
TOTAL OPERATING REVENUES	16,344,264
<b>OPERATING EXPENSES:</b>	
Administrative	2,556,217
Solid Waste	2,223,091
Water	3,874,231
Wastewater	6,981,618
Vehicle Maintenance	132,800
TOTAL OPERATING EXPENSES	15,767,957
Operating Income (Loss)	576,307
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	183,486
Interest Expense	(1,582,003)
Other Income	182,290
Gain on Sale of Capital Assets	56,293
Amortization Expense of Bond Discount	(228,142)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,388,076)
Net Income (Loss) before Capital Grants & Contributions	(811,769)
Capital Contributions	315,839
Change in Net Position	(495,930)
Net Position, Beginning of Year	70,809,493
Prior Period Adjustment	(1,772,384)
Net Position, Beginning of Year- Restated	69,037,109
Net Positon, End of Year	\$ 68,541,179

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND (COMPONENT UNIT)  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>ENTERPRISE FUND</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 16,393,871
Payments to Suppliers	(4,419,384)
Payments to Employees	(5,731,486)
Other Receipts (Payments)	<u>21,393</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>6,264,394</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Sale of Equipment	56,293
Proceeds from Long-Term Debt	14,294,088
Principal Payments	(3,637,292)
Interest Payments	(1,586,738)
Purchase of Property, Plant and Equipment	(3,799,479)
Contributed Capital Received	315,839
Cash from Other Income	<u>182,290</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b><u>5,825,001</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash from Interest	<u>183,407</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>183,407</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>12,272,802</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b><u>24,116,968</u></b>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 36,389,770</u></b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</b>	
Cash and Cash Equivalents - Unrestricted	9,429,690
Cash and Cash Equivalents - Restricted	342,778
Investments - Restricted	<u>26,617,302</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 36,389,770</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 576,307
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities:	
Depreciation/Amortization	5,262,999
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Accounts Receivable, Customers	(10,913)
SDC Assessments Receivable	6,767
Other Accounts Receivable	21,393
Material and Supplies	(18,427)
Prepaid Expenses	9,614
Deferred Outflows of Resources	(1,315,344)
Accounts Payable	171,013
Accrued Liabilities	(73,182)
Net Pension Liability	1,623,542
Compensated Absences	8,608
Customer Deposits	<u>2,017</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 6,264,394</u></b>
<b>Supplemental Information, Noncash Transactions</b>	
Donated Capital assets	<u>\$ 208,040</u>
Depreciation and Amortization Expense	<u>\$ 5,262,999</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
**June 30, 2018**

	<b>PENSION TRUST</b>	<b>AGENCY FUND</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 130,577	\$ 78,556
Investments	976,219	
Pension contribution receivable		
Accrued Investment Income	5,352	
<b>TOTAL ASSETS</b>	<b>\$ 1,112,148</b>	<b>\$ 78,556</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 1,098	\$ -
Due to Member Agencies		78,556
<b>TOTAL LIABILITIES</b>	<b>\$ 1,098</b>	<b>\$ 78,556</b>
 <b>FIDUCIARY NET POSITION</b>	 <b>\$ 1,111,050</b>	

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>PENSION TRUST</b>
<b>ADDITIONS:</b>	
Contributions	\$ 45,159
Investment Income:	
Interest	18,883
Net Appreciation (Depreciation) in Fair Value of Investments	(23,453)
Gain (Loss) on Sale of Investments	12,801
Less: Investment Expense	(5,790)
Net Investment Income	2,441
Total Additions	47,600
<b>DEDUCTIONS:</b>	
Benefits	115,818
Program Expenses	
HRA Benefits	2,172
Taxes	-
Total Deductions	117,990
Change in Net Position	(70,390)
Net Position June 30, 2017	1,181,440
Net Position June 30, 2018	\$ 1,111,050

The accompanying notes are an integral part of this statement

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**THE FINANCIAL REPORTING ENTITY**

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

2. EXCLUDED FROM THE ENTITY:

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

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

Component Unit – WMU

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

BASIS OF PRESENTATION

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

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

Fund Accounting

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

A. Governmental Fund Types

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

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

B. Proprietary Funds (Enterprise Fund)

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

BASIS OF ACCOUNTING

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

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

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

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

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

**BUDGETARY PROCESS**

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

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

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

**CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

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

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

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

**ACCOUNTS RECEIVABLE—COMPONENT UNIT (WMU)**

Accounts receivable - Customers, are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. An adjustment to an allowance for doubtful accounts is based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2018, \$103,886 were written off as uncollectible.

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

**INVENTORIES AND PREPAIDS**

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

*RESTRICTED ASSETS—COMPONENT UNIT (WMU)*

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

*CAPITAL ASSETS*

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

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

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

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

*CAPITAL ASSETS—COMPONENT UNIT (WMU)*

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

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

**COMPENSATED ABSENCES**

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

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

**BOND AMORTIZATION COSTS—COMPONENT UNIT (WMU)**

Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense for bond discount as of June 30, 2018, was \$228,142.

**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 year ended June 30, 2018 total interest incurred and expensed was \$1,582,033.

**LONG-TERM DEBT**

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**PENSIONS**

Beginning in fiscal year 2015, the City implemented GASB Statement No. 68, which requires recognition of the employer's (the City) obligation for the net long-term pension liabilities, deferred inflows of resources, deferred outflows of resources, and pension expense associated with both the cost-sharing and single-employer plans offered to City employees. Statement No. 68 also prescribes the accounting and reporting requirements for measuring and reporting these liabilities. The City reports its proportionate share of the collective balances and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 12—Pension Plans.

**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.

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Beginning in fiscal year 2018, the City implemented GASB Statement No. 75, which requires recognition of the employer's (the City) obligation for the net long-term OPEB liabilities, deferred inflows of resources, deferred outflows of resources, and OPEB expense associated with both the cost-sharing and single-employer plans offered to City employees. The City reports its proportionate share of the collective balances for the cost-sharing plan and information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position, based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. More information about these plans and the related balances is provided in Note 20—Other Postemployment Benefit Plans. Note 22 outlines the amounts that were recorded to adjust prior year balances for the implementation of GASBS No. 75.

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)—WMU**

WMU also implemented GASB Statement No. 75 for the fiscal year ended June 30, 2018. WMU reports its proportionate share of the collective net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. This plan is the same plan used by the City. More information on pensions is available in Note 20—Other Postemployment Benefit Plans. Note 22 outlines the amounts that were recorded to adjust prior year balances for the implementation of GASBS No. 75.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**INTERFUND TRANSFERS**

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

**NET POSITION**

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

Net position is displayed in three components:

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

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

- a) Nonspendable fund balance - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- b) Restricted fund balance - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.
- c) Committed fund balance – amounts constrained to specific purposes by the City itself, using its decision-making authority to be reported as committed, amounts cannot be used for any other purpose unless the city Commission votes to remove or change the constraint. A Commission resolution is required to commit funds.
- d) Assigned fund balance - amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Manager has the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund includes amounts that have been appropriated for expenditures in the budget for the City’s subsequent fiscal year.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

- e) Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Net Position—Component Unit (WMU)

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

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

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

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for FY2018 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, 2017 and were due December 2, 2017. Taxes unpaid after December 2, 2017 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Therefore, \$16,214 is reported as deferred inflows of resources in the governmental funds at June 30, 2018, since these amounts are estimated to be collected after August 30, 2018. Based on collection histories, the City has provided at June 30, 2018, an allowance for uncollectible property taxes of 59.66% (\$37,195) of delinquent accounts (\$62,345). The net receivable (\$25,150) is reported in both the governmentwide and governmental fund financial statements.

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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

*NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)*

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

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

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

*TAP FEES—COMPONENT UNIT (WMU)*

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

*SYSTEM DEVELOPMENT CHARGES—COMPONENT UNIT (WMU)*

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

*JOINT VENTURE*

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

Clark County Geographic Information System Consortium (CCGIS) is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. The city contributed \$87,000 for the year ended June 30, 2018. WMU contributed \$84,966 for the year ended June 30, 2018. There were no receivable/payables between the City, WMU, and CCGIS as of June 30, 2018. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

*IMPLEMENTATION OF GASB STANDARDS DURING FY2018*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, revised 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 was effective for the City and WMU beginning July 1, 2018, and required 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 have been expanded to include a description of their entities' proportionate shares of these balances.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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 an 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 was effective for the Utility beginning with the year in which the measurement date of the pension liability is on or after June 15, 2017. This standard only affected terminology in the required supplementary information and the selection of actuarial assumptions by the Kentucky Retirement Systems Board of Trustees and its actuary and did not have a direct financial impact on the City or WMU.

GASB Statement No. 85, *Omnibus 2017*, was effective for reporting periods beginning after June 15, 2017 (FY2018 for the City and WMU). This standard includes a variety of minor technical changes and had no financial impact on the City or WMU. Terminology for OPEB payroll-related measures was revised to conform with the guidance in this standard.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was effective for reporting periods beginning after June 15, 2017 (FY2018 for the City and WMU). This standard provides guidance for in-substance defeasance where cash or other monetary assets are placed in an irrevocable trust for the sole purpose of extinguishing debt. This guidance will apply to any future debt retirements by WMU that reflect these criteria. The guidance will only apply to the City if they issue bonds in the future and then extinguish that debt with existing cash and other monetary assets.

**FUTURE IMPLEMENTATION OF GASB STANDARDS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for reporting periods beginning after June 15, 2018. This statement provides guidance on accounting and financial reporting for obligations related to the retirement of tangible capital assets when a government is required to perform future asset retirement activities. This standard does not apply to retirements related to WMU's landfill. This guidance will not apply to the City or WMU unless the entity retires a tangible capital asset that requires environmental remediation or other legally enforceable liabilities related to those retirements.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for reporting periods beginning after December 15, 2018 (the 2020 fiscal year for the City and WMU). This standard establishes criteria for identifying fiduciary activities based on the government's control of the assets and the beneficiaries included in the fiduciary relationship. In addition, the standard will rename "agency" funds to "custodial" funds. This standard will have no financial impact on the City or WMU, but will require the City to revise reporting for its agency funds and add a statement of changes in custodial funds to the fiduciary fund statements.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

GASB Statement No. 87, *Leases*, will be effective for reporting periods beginning after December 15, 2019 (FY2021 for the City and WMU). This standard will require significant changes in reporting for lease agreements and require the reporting of operating leases with a liability and related intangible right-to-use lease asset based on the present value of payments expected to be made during the lease term. Only short-term leases with a lease term of 12 months or less will be excluded from this reporting. Note 6 outlines the terms of current operating leases for the City and only reports future lease payments of \$5,888 on these agreements. However, since the liability and the related intangible right-to-use lease asset will likely have the same balances, there will be no net impact on the City's net position. WMU has no operating leases, therefore there will be no financial impact or reporting changes in the WMU financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, will be effective for reporting periods beginning after June 15, 2018 (FY2019 for the City and WMU). This standard revises the definition of debt to include liabilities that arise from a contractual obligation to pay cash to settle an amount that is fixed at the date the contractual obligation is established. The guidance expands note disclosures to include the amount of unused lines of credit, assets pledged as collateral for debt, and terms specified for defaults, termination, or subjective acceleration clauses. Since the standard only requires expanded note disclosures, there will be no financial impact for either the City or WMU.

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

GASB Statement No. 90, *Majority Equity Interests*, will be effective for reporting periods beginning after December 15, 2018 (FY2020 for the City and WMU). This standard will require majority equity interests to be reported using the equity if the holding meets the definition of investment in GASBS No. 72, as amended. The City's investment in WMU does not meet that definition and therefore will not change the component unit reporting currently used by the City and WMU.

**ESTIMATES**

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**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, 2018, the City is in compliance with this requirement.

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

<u>Investments</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Mutual Fund	\$ 17,171	\$ 17,171
U.S. Government Securities	<u>959,048</u>	<u>949,658</u>
Total Investments	<u>\$ 976,219</u>	<u>\$ 966,829</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, 2018, 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

WMU does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

06/30/17	Type	Fair Value	Maturities (in Years)			
			< Than 1	1 - 5	6 - 10	> 10
	Cash & Cash Equivalents	\$ 36,389,770	\$ 36,389,770	\$ 0	\$ 0	\$ 0
	Total	\$ 36,389,770	\$ 36,389,770	\$ 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	\$ 36,389,770	\$ 0	\$ 0	\$ 0	\$ 36,389,770
	Total	\$ 36,389,770	\$ 0	\$ 0	\$ 0	\$ 36,389,770

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, 2018 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 3 – WMU RESTRICTED ASSETS**

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

1. Revenue Account—All income to WMU is deposited to the Revenue Account and then transferred to the other ordinance accounts as listed below.
2. Bond Redemption Account—The Bond Redemption Account was established to provide a source of funds for the payment of the bond principal and interest due within the current year. By the 20th day of each month funds equal to the total of one-sixth of the semi-annual interest payment plus one-twelfth of the next annual bond principal payment are to be transferred to the account. This account is reflected as currently restricted asset.
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, 2018, follows:

	<b>Cash</b>
<b>Restricted by Ordinance:</b>	
Bond Redemption Account	\$ 342,778
Reserve Accounts	1,096,967
Depreciation Account	2,741,065
Subtotal	4,180,810
<b>Other Restricted Accounts:</b>	
SDC Water Fund	2,783,018
SDC Wastewater Fund	210,892
Cash with Escrow Agent	444,144
Bond Funds Central	12,051,654
Customer Deposits	146,297
KIA Reserve	507,069
Water Improvements	3,012,169
2014 Bond Funds	2,471,301
Capital Accum-Water	702,669
Capital Accum-Wastewater	450,058
Total	\$ 26,960,080
Current Restricted	\$ 342,778
Noncurrent Restricted	\$ 26,617,302

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**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	\$ 886,042	\$ 369,452	\$ (161,748)	\$ 1,093,746
Land	2,152,683	0	0	2,152,683
Total Non-depreciable capital assets	<u>3,038,725</u>	<u>369,452</u>	<u>(161,748)</u>	<u>3,246,429</u>
Depreciable capital assets:				
Buildings	5,474,313	566,661	0	6,040,974
Vehicles	6,284,009	691,890	(162,231)	6,813,668
Furniture & fixtures	423,813	0	(2,840)	420,973
Equipment	5,476,945	505,224	(22,452)	5,959,717
Infrastructure	23,688,428	478,402		24,166,830
Total depreciable capital assets	<u>41,347,507</u>	<u>2,242,177</u>	<u>(187,523)</u>	<u>43,402,161</u>
Less accumulated depreciation				
Buildings	(3,048,694)	(197,532)	-	(3,246,226)
Vehicles	(4,232,754)	(411,755)	131,494	(4,513,015)
Furniture & fixtures	(397,082)	(10,229)		(407,311)
Equipment	(3,925,101)	(472,666)	25,292	(4,372,475)
Infrastructure	(17,696,809)	(368,281)		(18,065,090)
Total accumulated depreciation	<u>(29,300,440)</u>	<u>(1,460,463)</u>	<u>156,786</u>	<u>(30,604,117)</u>
Total depreciable capital assets, net	<u>12,047,067</u>	<u>781,714</u>	<u>(30,737)</u>	<u>12,798,044</u>
Governmental activities capital assets, net	<u>\$ 15,085,792</u>	<u>\$ 1,151,166</u>	<u>\$ (192,485)</u>	<u>\$ 16,044,473</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	\$ 575,205
Public Protection	
Police	135,415
Fire Protection	413,511
EMS	254,750
Public Works	81,582
	<u>\$ 1,460,463</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

WMU's systems consist of the following:

<u>6/30/2018</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	2,154,336	2,567,461	(937,517)	3,784,280
<b>Total Non-depreciable Assets</b>	<b>\$ 3,673,386</b>	<b>\$ 2,567,461</b>	<b>\$ (937,517)</b>	<b>\$ 5,303,330</b>
<b>Depreciable Assets:</b>				
Administrative	\$ 3,457,447	\$ 217,652	\$ (161,415)	\$ 3,513,684
Water System	57,407,555	11,117,841	(10,246,951)	58,278,445
Wastewater System	112,258,371	1,881,706	(668,080)	113,471,997
Solid Waste	7,890,376	682,023	(611,072)	7,961,327
Vehicle Maintenance	449,920	27,777	0	477,697
Equipment Capital Lease	33,169	0	0	33,169
<b>Subtotal</b>	<b>181,496,838</b>	<b>13,926,999</b>	<b>(11,687,518)</b>	<b>183,736,319</b>
<b>Accumulated Depreciation:</b>				
Administrative	(2,004,462)	(138,715)	(163)	(2,143,340)
Water System	(15,514,832)	(1,307,259)	6,785	(16,815,306)
Wastewater System	(30,587,330)	(3,160,305)	0	(33,747,635)
Solid Waste	(2,420,861)	(457,481)	93,477	(2,784,865)
Vehicle Maintenance	(342,404)	(7,695)	0	(350,099)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
<b>Subtotal</b>	<b>(70,100,645)</b>	<b>(5,071,455)</b>	<b>100,099</b>	<b>(75,072,001)</b>
<b>Total Net Property, Plant and Equipment</b>	<b>\$ 111,396,193</b>	<b>\$ 8,855,544</b>	<b>\$ (11,587,419)</b>	<b>\$ 108,664,318</b>

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>2018</u>
Administrative	\$ 138,715
Water System	1,307,259
Wastewater System	3,160,305
Solid Waste	457,481
Vehicle Maintenance	7,695
<b>Total Depreciation Expense</b>	<b>\$ 5,071,455</b>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 5 — INTERFUND ACTIVITY**

Interfund receivables and payables during the year ending June 30, 2018 were as follows.

Fund	Receivable	Payable
General Fund	\$ 125,577	\$ 1,698
Capital Equipment Fund		3,568
Police Special Revenue Fund	7,136	
Police Federal Forfeiture Fund		3,568
Admin Special Revenue Fund	1,698	
Mainstreets Special Revenue Fund		12,725
Federal & State Grants Fund		112,852
<b>Total</b>	<b>\$ 134,411</b>	<b>\$ 134,411</b>

In addition, certain funds have been transferred among the governmental funds to allocate resources for required grant matches and to subsidize operations. Transfers during FY2018 include the following:

Fund	Transfers Out	Transfers In
General Fund	\$ 107,868	\$ -
Capital Equipment Fund	3,568	-
Police Special	-	7,136
Federal Forfeiture Fund	3,568	-
Federal Grant Funds	-	107,868
<b>Total</b>	<b>\$ 115,004</b>	<b>\$ 115,004</b>

**NOTE 6 — OPERATING LEASES**

The City had operating leases for the following equipment as of June 30, 2018. 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	7/1/2019
MPC3502 Ricoh copier	6/19/2013	159	60	Planning	6/19/2018
MP301SPF Ricoh copier	5/1/2018	47	48	City Manager	5/1/2022
MP301SPF Ricoh copier	5/1/2018	47	48	Finance	5/1/2022
MP6004 Ricoh copier	10/10/2016	316	48	City Administration	10/10/2020
MP5054 Ricoh copier	10/10/2016	195	48	Fire Sta #3	10/10/2020
MP3504 Ricoh copier	10/10/2016	203	48	Fire Sta #3	10/10/2020
MP301SPF Ricoh copier	5/23/2014	52	48	Fire Sta #2	5/23/2018
MPC3503SP Ricoh copier	6/18/2014	167	60	Police	6/18/2019
MPC4504 Ricoh copier	9/25/2017	194	60	Police-Criminal Investigation	9/25/2022
MPC3503SP Ricoh copier	2/6/2017	57	48	Human Resources	2/6/2021

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 6 — OPERATING LEASES (CONTINUED)**

Rental expense for the current fiscal year was \$19,760. The future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
6/30/2019	\$ 17,235
6/30/2020	23,143
6/30/2021	10,224
6/30/2022	3,876
6/30/2023	563
Total	<u>\$ 50,601</u>

**NOTE 7 — CONSTRUCTION IN PROGRESS**

Construction in progress at June 30, 2018 consists of the following:

	<u>Construction in Progress</u>			
	<u>Beginning</u>	<u>Additions</u>	<u>Completed</u>	<u>Ending</u>
7th Street	199,735.97			199,735.97
Fulton Rd	199,725.00			199,725.00
Maple/Boone Sanitary Sewer	264,674.74	6,753.70		271,428.44
Community Splash Pad	37,502.99	5,566.50		43,069.49
Downtown Mast Arms	20,890.00	140,858.05	161,748.05	-
Soccer Park	-	203,915.63	-	203,915.63
Lincoln Street	-	7,691.75	-	7,691.75
Lykins Park Trail	5,141.00	-		5,141.00
Sphar Building	158,372.03	4,666.37		163,038.40
	-			-
	<u>886,041.73</u>	<u>369,452.00</u>	<u>161,748.05</u>	<u>1,093,745.68</u>

**NOTE 8 - LONG-TERM DEBT**

**CHANGES IN LONG-TERM DEBT**

Governmental long-term liability activity was as follows:

<u>Describe</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Leases	\$ 2,306,438		404,738	\$ 1,901,700	341,550
Sick Leave	753,386	10,480		763,866	24,075
Total Governmental	<u>\$ 3,059,824</u>	<u>\$ 10,480</u>	<u>404,738</u>	<u>\$ 2,665,566</u>	<u>365,625</u>

Leased facilities and equipment under capital leases in capital assets at June 30, 2018, included the following:

Equipment	\$1,760,659
Buildings	<u>3,213,430</u>
Less: Accumulated Depreciation	(2,344,593)
Net Value	<u>\$ 2,629,496</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, 2018**

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

**CAPITAL LEASES**

The City has five capital leases at of June 30, 2018. 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.

<u>Purpose</u>	<u>Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payment</u>	<u>Outstanding Balance</u>
Winchester Community Center	05/21/10	3.48%	20 years	\$ 141,815	\$ 1,139,624
Ambulance Remounts	09/03/15	1.75%	4 years	36,522	45,060
2 Ambulance Remounts	03/15/17	1.89%	4 years	62,144	151,393
SCBA's	03/15/17	2.05%	5 years	83,941	282,812
Rescue Pumper	03/15/17	4.93%	5 years	83,941	282,812
				\$ 408,362	\$ 1,901,700

Capital leasing commitments to maturity for the year ending June 30, 2018:

2019	\$ 406,530
2020	377,296
2021	335,092
2022	218,132
2023	132,156
Thereafter	795,763
Total Minimum Lease Payments	2,264,969
Less interest payments	363,268
Present Value of Minimum Lease Payments	\$ 1,901,701

**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, 2018 are summarized as follows:

<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Original Issue</u>	<u>2018 Total</u>
2011 Issue	5.27%	1/1/2031	\$ 9,010,000	\$ 6,562,500
2012 Issue	2.00 - 3.75%	7/1/2032	7,495,000	5,595,000
2014 Issue	2.00 - 4.00%	7/1/2045	9,915,000	9,295,000
2018 Issue	3.00 - 4.00%	7/1/2042	13,045,000	13,045,000
Less: Unamortized Discount				(532,160)
Total Bonds				33,965,340
KIA Loan -Strodes Creek	1.00%	12/1/2028	21,000,000	11,548,615
		Estimate		
KIA-Lower Howards Creek	2.00%	1/1/2031	36,600,000	28,767,280
		Estimate		
KIA-Bel-Air	2.00%	1/1/2031	1,000,000	422,261
KIA-Industrial Storage Tanks	2.00%	12/1/2030	340,326	228,266
KIA-Vaught Court	2.00%	6/1/2031	287,400	185,942
KIA-Hampton Manor	1.75%	6/1/2037	1,249,088	1,249,088
Total KIA Loans				42,401,452
Less: Current Maturities				(3,759,188)
Total Long Term				\$ 72,607,604

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**LONG-TERM DEBT – WMU (CONTINUED)**

The annual bond and long-term debt service requirements, as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,759,188	\$ 1,984,233	\$ 5,743,421
2019	3,895,130	1,906,085	5,801,215
2020	3,983,974	1,823,630	5,807,604
2021	4,076,563	1,738,682	5,815,245
2022	4,169,998	1,650,483	5,820,481
2023-2027	22,421,861	6,793,992	29,215,853
2028-2032	20,570,815	3,992,254	24,563,069
2033-2037	6,471,422	2,031,852	8,503,274
2038-2042	6,515,000	848,975	7,363,975
2043-2047	1,035,000	62,600	1,097,600
	<u>\$ 76,898,951</u>	<u>\$ 22,832,786</u>	<u>\$ 99,731,737</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 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 due 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 due on July 1 and January 1 and the principal payments are due 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 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 due on July 1 and January 1 and the principal payments are due in July 1.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

*LONG-TERM DEBT – WMU (CONTINUED)*

**Series 2018 Bonds**

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

**KIA – Strodes Creek Loan**

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

**KIA – Vaught Court Loan**

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

**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. 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

*LONG-TERM DEBT – WMU (CONTINUED)*

**KIA – Industrial Elevated Storage Tank**

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

**KIA – Bel Air Sanitary**

On October 1, 2012, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the Bel-Air and Westside pump station projects, \$1,000,000. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation estimated to be December 1, 2013. 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.

**KIA – Hampton Manor**

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

The Kentucky Infrastructure Authority has made these loans inferior and subordinate to the security interest and source of payment for the Debt Obligations of Winchester Municipal Utilities payable from the revenues of the System outstanding at the time of the execution of the “Assistance Agreement”. The Agreement also further states that the Kentucky Infrastructure Authority must be notified no less than thirty days (30), in writing, prior to the issuance of any further debt obligations on parity with the current debt obligations.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

LONG-TERM DEBT – WMU (CONTINUED)

**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, 2018 are as follows:

Description	2018 Beginning	Borrowings Additions	Repayments Reductions	2018 Ending	Current
Compensated Absences	\$ 524,097	\$ 8,608	\$ -	\$ 532,705	\$ -
Bonds	22,041,519	13,045,000	891,015	34,195,504	941,251
KIA-Strodes Creek	12,586,703	-	1,038,087	11,548,616	1,048,495
KIA-Lower Howards	30,396,804	-	1,629,529	28,767,275	1,662,956
KIA-Bel-Air	446,180	-	23,919	422,261	24,401
KIA-Storage Tank	244,191	-	15,925	228,266	16,246
KIA-Vaught Court	199,525	-	13,583	185,942	13,856
KIA-Hampton Manor	-	1,249,088	-	1,249,088	52,661
Total Long-Term Debt	<u>\$ 66,439,019</u>	<u>\$ 14,302,696</u>	<u>\$ 3,612,058</u>	<u>\$ 77,129,657</u>	<u>\$3,759,866</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.” 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, 2018 and required a balance of \$1,048,175.

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

**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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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>2018</b>
Income Available for Debt Service	\$ 998,374
Add: Depreciation	<u>5,071,619</u>
Cash Available for Bond Debt Service	<u>\$ 6,069,993</u>
Annual Debt Service on Bonds	<u>\$ 1,770,456</u>
Coverage Ratio	<u>3.43</u>
<b>KIA</b>	<b>2018</b>
Income Available for Debt Service	\$ 998,374
Add: Depreciation	<u>5,071,619</u>
Cash Available for Bond Debt Service	<u>\$ 6,069,993</u>
Annual Debt Service on Bonds	<u>\$ 5,244,743</u>
Coverage Ratio	<u>1.16</u>

Winchester Municipal Utilities is in compliance with all of the covenants of the bond ordinance and KIA loan agreement as of June 30, 2018.

**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	<u>17,952,000</u>
Total projected financing requirement	<u>\$ 38,887,480</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

**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 Microcomputeres	6,000
Resurface Front Office Parking Lot	20,000
Engineering	
Purchase Printer/Scanner	12,000
Field Operation Vehicles	330,000
Solid Waaste Collection:	
Curbit Replacement	25,000
Container Replacement	50,000
Replace Compactor Ejector Box	10,000
Purchase Compactor Power Unit	50,000
Precrusher Compactor Power Unit	50,000
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
Purchase Backhoe	16,000
Meter Reading Handheld Unit	12,500
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
Sewer Inspection Camera & Equipment	40,000
Wastewater Treatment Plant (SC):	
Replacement of Laboratory Equipment	2,000
WWTP Equipment Improvements	407,000
Solids Processing Improvements	297,000
Concrete Road Repairs	28,000
Wastewater Treatment Plant (LHC)	40,000
Watewater Solids Processing (LHC)	15,000
Total Annual Allocations for Infrastructure Investment	<u>\$ 2,233,500</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, 2018**

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

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

**NOTE 12 – PENSION PLANS**

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

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

Describe	CERS	P&F	Total City	WMU
Deferred Outflows	\$ 9,640,012	\$ 98,502	\$ 9,738,514	\$ 2,376,120
Deferred Inflows	1,872,187	-	1,872,187	667,028
Net Pension Liability	31,623,872	1,199,113	32,822,985	7,097,486
Pension Expense	8,969,648	173,248	9,142,896	985,752

**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, 2018**

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**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, 2018, and the report issued by the firm of Findley, LLC. A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board.

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

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

Date	COLA
July 1, 2018	2.100%
July 1, 2017	2.100%
July 1, 2016	0.700%
July 1, 2015	0.800%
July 1, 2014	1.500%

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 \$45,000 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, 2018, PNC has invested 1.76% of the trust in a mutual fund (for cash flow purposes) and 98.24% in U.S. Treasury securities. As of June 30, 2018, the annual money-weighted rate of return, net of investment expense is a - 0.35%.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

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

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

As of June 30, 2018, the US Treasury securities included the following:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Rating</u>	<u>Market Value</u>	<u>Cost</u>
Treasury Notes	2.125%	01/31/2021	AAA	\$ 98,809	\$ 99,442
Treasury Notes	1.875%	07/15/2019	Unrated	119,226	105,770
Treasury Notes	3.375%	11/15/2019	AAA	101,203	96,926
Treasury Notes	1.500%	08/31/2018	AAA	49,966	50,283
Treasury Notes	.875%	07/31/2019	AAA	73,793	73,931
Treasury Notes	1.375%	0/31/2020	AAA	98,285	99,774
Treasury Notes	1.125%	03/31/2020	AAA	97,625	98,965
Treasury Notes	1.125%	04/30/2020	AAA	121,890	125,630
Treasury Notes	1.125%	01/31/2019	AAA	99,383	99,781
Treasury Notes	2.125%	07/31/2021	AAA	98,867	99,156

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, 2018:

Total Pension Liability	\$ 2,310,163
Pension Plan's Fiduciary Net Position	<u>(1,111,050)</u>
Net Pension Liability	<u>\$ 1,199,113</u>

*Significant Assumptions Used in Actuarial Study.* The actuarial analysis, completed as of June 30, 2018, 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-2017.
- The actuarial assumptions included an assumption for future COLAs based on a geometric average of the COLAs made during the most recent ten years, rounded to the nearest 0.5% (currently 1.50%, 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, 2018**

**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 (\$45,000 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 2.98%. 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:

	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
	1.98%	2.98%	3.98%
Total Pension Liability	\$ 2,673,167	\$ 2,310,163	\$ 2,022,881
Plan Fiduciary Net Position	1,111,050	1,111,050	1,111,050
Net Pension Liability	\$ 1,562,117	\$ 1,199,113	\$ 911,831

***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, 2018.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Increase/(Decrease) Net Pension Liability</u>	<u>Pension Expense</u>
Balances, June 30, 2017	\$ 2,271,594	\$ 1,181,440	\$ 1,090,154	
Changes for the Year:				
Interest expense	69,137		69,137	\$ 69,137
Experience loss (gains)	34,680		34,680	34,680
Changes of assumptions	50,570		50,570	50,570
Employer contributions		45,000	(45,000)	
Net investment income		8,231	(8,231)	
Expected return on plan investments				(35,019)
Current expense of asset gain/loss			0	55,893
Benefits paid	(115,818)	(115,818)	0	
Plan administrative expenses		(5,790)	5,790	
Other changes		(2,013)	2,013	(2,013)
Net changes	38,569	(70,390)	108,959	\$ 173,248
Balances, June 30, 2018	\$ 2,310,163	\$ 1,111,050	\$ 1,199,113	

***Pension Expense Deferred Outflows/Inflows.*** For the year ended June 30, 2018, the recognized pension expense was \$173,248.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

At June 30, 2018, 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>\$ 98,502</u>	-0-	4 years
Total	<u>\$ 98,502</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>		
2019	\$	43,666
2020	\$	29,266
2021	\$	19,337
2022	\$	6,233
2023	\$	-
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, 2018**

**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, 2018**

**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, 2018**

**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, 2018, 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 (.08774%)	\$ 6,476,996
Hazardous plan (.89396%)	<u>25,146,876</u>
Total proportionate share	<u>\$31,623,872</u>

The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles.

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, 2017, the City's proportion was 0.08774% of the nonhazardous plan and 0.89396% of the hazardous plan.

For the year ended June 30, 2018, the City recognized pension expense of \$2,309,944 for nonhazardous members and \$8,261,409 for hazardous members in CERS.

At June 30, 2018, City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Non-hazardous</u> Deferred Outflows of Resources	<u>Hazardous</u> Deferred Outflows of Resources	<u>Total City</u> Deferred Outflows of Resources	<u>WMU</u> Deferred Outflows of Resources	<u>Non-hazardous</u> Deferred Inflows of Resources	<u>Hazardous</u> Deferred Inflows of Resources	<u>Total City</u> Deferred Inflows of Resources	<u>WMU</u> Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,370	\$ 733,591	\$ 739,961	\$ 8,803	\$ 130,361	\$ -	\$ 130,361	\$ 180,165
Changes of assumptions	947,642	3,989,623	4,937,265	1,309,679	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	406,727	1,311,863	1,718,590	562,112	343,206	1,137,088	1,480,294	474,325
Changes in proportion and differences between City's contributions and proportionate share of contributions	241,562	400,929	642,491	47,626	23,408	238,124	261,532	12,538
City's contributions subsequent to the measurement date	317,066	1,284,639	1,601,705	447,900	-	-	-	-
<b>Totals</b>	<u>\$ 1,919,367</u>	<u>\$ 7,720,645</u>	<u>\$ 9,640,012</u>	<u>\$ 2,376,120</u>	<u>\$ 496,975</u>	<u>\$ 1,375,212</u>	<u>\$ 1,872,187</u>	<u>\$ 667,028</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

\$1,601,705 reported as deferred outflows of resources related to pensions resulting from City contributions and \$447,900 resulting from WMU contributions subsequent to the measurement date for the 2018 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year ended June 30,	Amortization of Pension Deferred Outflows (Inflows) of Resources			
	Non-hazardous	Hazardous	Total City	WMU
2019	\$ 479,590	\$ 2,009,015	\$ 2,488,605	\$ 580,160
2020	473,434	2,372,035	2,845,469	536,581
2021	218,245	897,976	1,116,221	235,586
2022	(65,943)	(218,232)	(284,175)	(91,136)
2023	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ 1,105,326</u>	<u>\$ 5,060,794</u>	<u>\$ 6,166,120</u>	<u>\$ 1,261,191</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increase	Ranges from 3.30% to 11.55%, depending on years of service and classification
Inflation	2.30%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation

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. At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for male and females, respectively. This 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, 2018**

**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. In May 2017, the Kentucky Retirement Systems Board of Trustees adopted a new asset allocation policy based on recommendations from the investment professionals serving as trustees on the Board, the actuarial valuation used a long-term expected rate of return determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage.

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>
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash Equivalents	<u>2.0%</u>	<u>1.88%</u>
Total	<u>100.0%</u>	<u>6.56%</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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

Discount rate

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	5.25%	6.25%	7.25%
CERS -- NonHazardous	\$ 5,135,516	\$ 6,476,996	\$ 4,013,379
CERS -- Hazardous	20,000,398	25,146,876	15,750,158
Total Net Pension Liabilities	\$ 25,135,914	\$ 31,623,872	\$ 19,763,537
WMU Net Pension Liabilities	\$ 8,951,465	\$ 7,097,486	\$ 5,546,648

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, 2018 were \$48,763. WMU does not contribute to these plans.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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**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, 2018**

**NOTE 15 – WMU – ECONOMIC DEPENDENCY**

WMU is economically dependent for water and wastewater revenues from the following four entities which account for 13% for 2018:

<b>Name</b>	<b>2018</b>
The Kroger Company	\$ 710,587
Sekisui	381,444
East Clark County WD	295,439
Catalent	248,171
	\$ 1,635,641

**NOTE 16 – RISK MANAGEMENT**

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

**CITY – SELF-INSURANCE**

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

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

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

Fiscal Year Ended June 30	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2014	\$ 109,611	\$ 1,112,190	\$ 1,108,140	\$ 113,661
2015	\$ 113,661	\$ 1,302,942	\$ 1,253,766	\$ 162,837
2016	\$ 162,837	\$ 1,849,045	\$ 1,781,190	\$ 230,692
2017	\$ 230,692	\$ 1,132,974	\$ 1,214,304	\$ 149,362
2018	\$ 149,362	\$ 1,618,644	\$ 1,716,969	\$ 247,687

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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**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 (\$207,012) and shared revenues from the Commonwealth of Kentucky (\$1,004,222). Committed fund balance includes amounts set aside by the City Commission for balances held by a third-party administrator to pay future employee health care claims (\$641,929), special projects (\$543,552), and capital acquisitions (\$1,378,245). Assigned fund balance includes amounts set aside for the FY2019 budget (\$2,167,497).

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

The City received \$7,767 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 2018, the City spent \$14,250.

**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 2018.

Winchester/Clark County Planning & Zoning	\$	7,000
Winchester/Clark County Parks & Recreation		379,699
Clark County/Winchester Heritage Commission		65,000
Winchester/Clark County Recreation		56,820
Winchester/Clark County Industrial Development Authority		123,260
Winchester/Clark County Board of Adjustment		1,500
Clark County GIS		87,000
Total Contributions	\$	720,279

**NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS**

GASB standards require the separation of healthcare benefits (OPEB) provided to retirees from the service-related pension benefits if these benefits are provided in conjunction with a defined benefit plan. As we noted in Note 1 — Summary of Significant Accounting Policies, GASB Statement No. 75 required the City and its component unit, WMU, to recognize their proportionate share of the collective net OPEB liability for the CERS cost-sharing plan, as well as the net OPEB liability associated with the single-employer Policemen’s and Firemen’s Pension Fund for the fiscal year ended June 30, 2018.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

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

Describe	CERS	P&F	Total City	WMU
Deferred Outflows	\$ 3,753,668	\$ -	\$ 3,753,668	\$ 675,802
Deferred Inflows	574,708	-	574,708	127,629
Net OPEB Liability	9,153,935	-	9,153,935	2,437,660
OPEB Expense	1,379,470	-	1,379,470	117,103

*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, 2018, the City paid \$2,172 for these OPEB benefits. The City has not determined the net OPEB liability in accordance with GASB Statement No. 75.

*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 Requires 10 years of service; \$15 per month for each year of earned service; includes spouse & dependent coverage
	Participation after 7/1/2003	Requires 10 years of service; \$10 per month for each year of earned service	Participation after 7/1/2003	

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

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

*Funding Policy.* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2017 measurement period, CERS allocated 4.73% of the 18.68% actuarially required employer contribution rate for non-hazardous employees and 9.35% of the 31.06% for hazardous employees for funding the healthcare benefit. In addition, 1% of the Tier 2 and Tier 3 employee contributions of 6% are allocated to the health insurance plan.

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

At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by the City as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with the City were as follows:

City's proportionate share of the net OPEB liability	
Nonhazardous plan (.08774%)	\$ 1,763,814
Hazardous plan (.89396%)	<u>7,390,121</u>
Total proportionate share	<u>\$9,153,935</u>

The net OPEB liability for each plan was measured as of June 30, 2017, 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 OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the City's proportion was 0.08774% of the nonhazardous plan and 0.89396% of the hazardous plan.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018**

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

**OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

For the year ended June 30, 2018, the City recognized OPEB expense of \$189,926 for nonhazardous members and \$1,189,544 for hazardous members in CERS.

At June 30, 2018, City reported deferred outflows and inflows of resources related to OPEB 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>WMU</u>
	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Inflows of Resources	Deferred Inflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 4,899	\$ 17,221	\$ 22,120	\$ 6,770
Changes of assumptions	383,795	2,725,905	3,109,700	530,420	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	-	-	-	83,357	463,669	547,026	115,203
Changes in proportion and differences between City's contributions and proportionate share of contributions	-	-	-	-	4,093	1,469	5,562	5,656
City's contributions subsequent to the measurement date	102,915	541,053	643,968	145,382	-	-	-	-
<b>Totals</b>	<b>\$ 486,710</b>	<b>\$ 3,266,958</b>	<b>\$ 3,753,668</b>	<b>\$ 675,802</b>	<b>\$ 92,349</b>	<b>\$ 482,359</b>	<b>\$ 574,708</b>	<b>\$ 127,629</b>

\$643,968 reported as deferred outflows of resources related to OPEB resulting from City contributions and \$145,382 resulting from WMU contributions subsequent to the measurement date for the 2018 plan year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

<b>Year ended June 30,</b>	<b>Amortization of OPEB Deferred Outflows (Inflows) of Resources</b>			
	<b>Non-hazardous</b>	<b>Hazardous</b>	<b>Total City</b>	<b>WMU</b>
2019	\$ 50,146	\$ 648,833	\$ 698,979	\$ 69,304
2020	50,146	648,833	698,979	69,304
2021	50,146	648,833	698,979	69,304
2022	50,146	297,047	347,193	69,304
2023	70,986	-	70,986	98,105
Thereafter	19,876	-	19,876	27,471
	<b>\$ 291,446</b>	<b>\$ 2,243,546</b>	<b>\$ 2,534,992</b>	<b>\$ 402,792</b>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

**Actuarial Assumptions**

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increase	4% average
Inflation	3.25%
Investment Rate of Return	6.25%, Net of OPEB Plan Investment Expense, including Inflation Pre-65--Initial trend starting at 7.50%, declining to 5.00% Post-65: Initial trend at 5.50%, declining to
Health care cost trend rate	5.00%
Municipal bond index rate	3.56%
Discount rate	5.84%

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. 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

*OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)*

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>
US Equity	17.5%	5.75%
International Equity	17.5%	7.38%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash Equivalents	<u>2.0%</u>	<u>1.88%</u>
Total	<u>100.0%</u>	<u>6.56%</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 OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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

**OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

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

	<u>1% Decrease</u>	<u>Current Discount</u> <u>Rate</u>	<u>1% Increase</u>
	4.84%	5.84%	6.84%
CERS -- NonHazardous	\$ 2,244,355	\$ 1,763,814	\$ 1,363,928
CERS -- Hazardous	9,903,776	7,390,121	5,333,539
Total Net OPEB Liabilities	<u>\$ 12,148,131</u>	<u>\$ 9,153,935</u>	<u>\$ 6,697,467</u>
WMU Net OPEB Liabilities	\$ 3,101,788	\$2,437,660	\$1,885,002

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

	<u>1% Decrease</u>	<u>Current Trend</u> <u>Rate</u>	<u>1% Increase</u>
CERS -- NonHazardous	\$ 1,352,936	\$ 1,763,814	\$ 2,297,931
CERS -- Hazardous	5,231,353	7,390,121	10,061,925
Total Net OPEB Liabilities	<u>\$ 6,584,289</u>	<u>\$ 9,153,935</u>	<u>\$ 12,359,856</u>
WMU Net OPEB Liabilities	\$ 1,869,811	\$2,437,660	\$3,175,831

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2018**

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**NOTE 22 – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES**

As explained in Note 1, the implementation of GASBS No. 75 required the City and WMU to revise reporting for the costs of other postemployment benefits and to recognize their proportionate share of the collective balances for the CERS cost-sharing plan. GASBS No. 75 required retrospective application and a restatement of beginning balances for the net OPEB liability, deferred outflows of resources, and net position to recognize the amounts as of July 1, 2017. The following table summarizes these changes for the City and WMU.

	Non- Hazardous	Hazardous	Total City	WMU
CERS Net OPEB Liability at 6/30/2017	\$(1,383,483)	\$(4,415,868)	\$(5,799,351)	\$(1,912,028)
CERS OPEB Deferred Outflows at 6/30/2017	<u>101,041</u>	<u>458,837</u>	<u>559,878</u>	<u>139,644</u>
Total Restatement of Net Position	<u>\$(1,282,442)</u>	<u>\$(3,957,031)</u>	<u>\$(5,239,473)</u>	<u>\$(1,772,384)</u>

**NOTE 23—TAX ABATEMENTS – TAX INCREMENT FINANCING**

The City is authorized by Kentucky Revised Statutes 65.493, 65.7056 & 65.7049 and City Ordinance No. 1-2010 to enter into property tax abatement agreements and tax incentive agreements for the purpose of encouraging 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. The City pledged 100% of the incremental real ad valorem taxes and 50% of the incremental occupational license fees to the developer. The local participation agreement is for 20 years. The Kentucky Industrial Development Act is a performance based incentive by meeting job and investment targets for a 10 year period. The City currently has five of these agreements.

For the ended June 30, 2018, the City abated property and occupational taxes rebated totaled \$294,523.

**NOTE 24 – SUBSEQUENT EVENTS**

The city has evaluated all subsequent events through January 10, 2019 the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF WINCHESTER, KENTUCKY**  
**SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES**  
**POLICEMEN'S AND FIREMEN'S DEFINED PENSION TRUST**  
**For the Year Ended June 30, 2018**

	2018	2017	2016	2015	2014
<b>SCHEDULE OF CHANGES IN NET PENSION LIABILITY:</b>					
Total Pension Liability:					
Total Pension Liability - beginning of period	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956	\$ 2,229,075
Interest cost	69,137	78,290	88,989	90,061	108,334
Differences between expected and actual experience	34,680	9,417	(2,392)	(117,035)	(18,476)
Changes of assumptions	50,570	56,183	183,853	105,860	(74,789)
Benefit payments	(115,818)	(115,820)	(117,851)	(116,917)	(115,188)
Total Pension Liability - end of period	<u>2,310,163</u>	<u>2,271,594</u>	<u>2,243,524</u>	<u>2,090,925</u>	<u>2,128,956</u>
Plan Fiduciary Net Position					
Plan Fiduciary Net Position - beginning of period	1,181,440	1,277,267	1,364,940	1,472,928	1,567,294
Contributions - Employer	45,000	25,000	20,232	15,662	14,370
Net Investment Income	8,231	136	20,234	3,936	15,822
Benefit Payments/Refunds	(115,818)	(115,820)	(123,083)	(119,483)	(115,188)
Other	(7,803)	(5,143)	(4,599)	(8,103)	(9,370)
Plan Fiduciary Net Position - end of period	<u>1,111,050</u>	<u>1,181,440</u>	<u>1,277,724</u>	<u>1,364,940</u>	<u>1,472,928</u>
Net Pension Liability - end of period	<u>\$ 1,199,113</u>	<u>\$ 1,090,154</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>

<b>SCHEDULE OF NET PENSION LIABILITY</b>					
Total pension liability	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	1,111,050	1,181,553	1,277,224	1,364,940	1,472,928
Net pension liability	<u>\$ 1,199,113</u>	<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	48.09%	52.01%	56.93%	65.28%	69.19%
Note: There is no covered payroll for this plan					

<b>SCHEDULE OF CONTRIBUTIONS</b>					
Actuarially determined contribution	\$ 285,400	\$ 161,363	\$ 215,517	\$ 168,897	\$ 145,214
Actual employer contributions	45,000	25,000	15,000	10,000	5,000
Contribution deficiency (excess)	<u>\$ 240,400</u>	<u>\$ 136,363</u>	<u>\$ 200,517</u>	<u>\$ 158,897</u>	<u>\$ 140,214</u>

Note: There is no covered payroll for this plan

<b>Annual Money-Weighted Rate of Return</b>					
Annual money-weighted rate of return, net of investment expense	0.35%	-0.39%	1.16%	-0.10%	0.94%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	6/30/2018
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Amortization Period	Five years, open
Actuarial Asset Valuation Method	Market Value as reported by PNC Bank, Kentucky, Inc., with adjustments as reported by City Treasurer
Actuarial Assumptions:	
Discount Rate	2.98%
Inflation	1.44%
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 BENEFIT PENSION SCHEDULES & NOTES  
FOR THE YEAR ENDED JUNE 30, 2018**

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

<b>Measurement Date - June 30</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>City's Financial Reporting Date - June 30</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NONHAZARDOUS PLAN</b>				
Proportionate share percentage	0.087737%	0.080160%	0.081660%	0.079420%
Proportionate share amount	\$ 6,476,996	\$ 3,946,977	\$ 3,510,870	\$ 2,576,677
Covered Payroll	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523	\$ 1,642,702
Collective share of NPL as % of payroll	327.30%	209.53%	193.06%	156.86%
Plan's fiduciary net position as a percentage of total pension liability	52.80%	59.00%	59.97%	66.80%
<b>HAZARDOUS PLAN</b>				
Proportionate share percentage	0.893961%	0.863610%	0.909610%	0.896320%
Proportionate share amount	\$ 25,146,876	\$ 14,819,031	\$ 13,963,426	\$ 10,772,225
Covered Payroll	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643	\$ 4,001,725
Collective share of NPL as % of payroll	505.10%	308.47%	293.00%	269.19%
Plan's fiduciary net position as a percentage of total pension liability	48.10%	57.41%	57.52%	63.46%
Proportionate share (amounts)				
Nonhazardous	\$ 6,476,996	\$ 3,946,977	\$ 3,510,870	\$ 2,576,677
Hazardous plan	25,146,876	14,819,031	13,963,426	10,772,225
Total proportionate share	<u>\$ 31,623,872</u>	<u>\$ 18,766,008</u>	<u>\$ 17,474,296</u>	<u>\$ 13,348,902</u>

**TABLE 2--CONTRIBUTIONS**

<b>Measurement Date - June 30</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>City's Financial Reporting Date - June 30</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NONHAZARDOUS PLAN</b>				
Required Contributions	\$ 297,996	\$ 227,751	\$ 243,800	\$ 250,345
Contributions Recognized by Plan	297,996	227,751	243,800	250,345
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523	\$ 1,818,523
Contributions as Percentage of Payroll	15.06%	12.09%	13.41%	13.77%
<b>HAZARDOUS PLAN</b>				
Required Contributions	\$ 1,065,385	\$ 912,949	\$ 983,018	\$ 988,321
Contributions Recognized by Plan	1,065,385	912,949	983,018	988,321
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643	\$ 4,765,643
Contributions as Percentage of Payroll	21.40%	19.00%	20.63%	20.74%

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

See Auditor's Report and Accompanying Notes to Required Supplementary Information

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO PENSION REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2018**

**COUNTY EMPLOYEES RETIREMENT SYSTEM:**

Changes of Benefit Terms -

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

Changes of Assumptions -

Investment rate of return was lowered from 7.5% to 6.25%

Salary increases were revised from an average of 4% to a range of 3.3% - 11.55%

Inflation was lowered from 3.25% to 2.3%

**CITY OF WINCHESTER, KENTUCKY  
COST-SHARING DEFINED BENEFIT OPEB TRUST SCHEDULES & NOTES  
FOR THE YEAR ENDED JUNE 30, 2018**

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

<b>Measurement Date - June 30</b>	<b>2017</b>	<b>2016</b>
<b>City's Financial Reporting Date - June 30</b>	<b>2018</b>	<b>2017</b>
<b>NONHAZARDOUS PLAN</b>		
Proportionate share percentage	0.087737%	0.087737%
Proportionate share amount	\$ 1,763,814	1,383,483
Covered Payroll	\$ 1,978,917	\$ 1,883,734
Collective share of NPL as % of payroll	89.1%	73.4%
Plan's fiduciary net position as a percentage of total pension liability	66.40%	69.60%
<b>HAZARDOUS PLAN</b>		
Proportionate share percentage	0.893961%	0.893961%
Proportionate share amount	\$ 7,390,121	4,415,868
Covered Payroll	\$ 4,978,627	\$ 4,804,031
Collective share of NPL as % of payroll	148.44%	91.92%
Plan's fiduciary net position as a percentage of total pension liability	66.90%	72.90%
Proportionate share (amounts)		
Nonhazardous	\$ 1,763,814	\$ 1,383,483
Hazardous plan	7,390,121	4,415,868
Total proportionate share	<u>\$ 9,153,935</u>	<u>\$ 5,799,351</u>

**TABLE 2--CONTRIBUTIONS**

<b>Measurement Date - June 30</b>	<b>2017</b>		<b>2016</b>
<b>City's Financial Reporting Date - June 30</b>	<b>2018</b>		
<b>NONHAZARDOUS PLAN</b>			
Required Contributions	\$ 101,041	\$	84,160
Contributions Recognized by Plan	101,041		84,160
Difference	<u>\$ -</u>	<u>\$</u>	<u>-</u>
Covered Payroll	\$ 1,978,917	\$	1,883,734
Contributions as Percentage of Payroll	5.11%		4.47%
<b>HAZARDOUS PLAN</b>			
Required Contributions	\$ 458,837	\$	584,655
Contributions Recognized by Plan	458,837		584,655
Difference	<u>\$ -</u>	<u>\$</u>	<u>-</u>
Covered Payroll	\$ 4,978,627	\$	4,804,031
Contributions as Percentage of Payroll	9.22%		12.17%

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 OPEB REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2018**

**COUNTY EMPLOYEES RETIREMENT SYSTEM:**

Valuation Date: June 30, 2017

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF WINCHESTER, KENTUCKY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2018

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	FEDERAL & STATE GRANT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:											
Cash and Cash Equivalents	\$ 1,004,968	\$ 772	\$ 2	\$ 31,674	\$ 198,484	\$ 139,981	\$ 94,817	\$ 40,557	\$ 45,799	\$ 213,497	\$ 1,770,550
Accounts Receivable	-	-	18,545	-	-	-	-	-	-	106,367	124,912
Due from Other Funds	-	-	-	1,698	-	7,136	-	-	-	-	8,834
<b>TOTAL ASSETS</b>	<b>\$ 1,004,968</b>	<b>\$ 772</b>	<b>\$ 18,547</b>	<b>\$ 33,372</b>	<b>\$ 198,484</b>	<b>\$ 147,117</b>	<b>\$ 94,817</b>	<b>\$ 40,557</b>	<b>\$ 45,799</b>	<b>\$ 319,864</b>	<b>\$ 1,904,296</b>
LIABILITIES:											
Accounts Payable	\$ 1,518	\$ -	\$ 18,545	\$ -	\$ 300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,363
Due to Other Funds	-	-	-	-	12,725	-	3,568	-	-	112,852	129,145
<b>TOTAL LIABILITIES</b>	<b>1,518</b>	<b>-</b>	<b>18,545</b>	<b>-</b>	<b>13,025</b>	<b>-</b>	<b>3,568</b>	<b>-</b>	<b>-</b>	<b>112,852</b>	<b>149,508</b>
FUND BALANCES:											
Restricted Fund Balance	1,003,450	772	2	-	-	-	-	-	-	207,012	1,211,235
Committed Fund Balance	-	-	-	33,372	185,459	147,118	91,248	40,557	45,799	-	543,552
<b>TOTAL FUND BALANCES</b>	<b>1,003,450</b>	<b>772</b>	<b>2</b>	<b>33,372</b>	<b>185,459</b>	<b>147,118</b>	<b>91,248</b>	<b>40,557</b>	<b>45,799</b>	<b>207,012</b>	<b>1,754,788</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,004,968</b>	<b>\$ 772</b>	<b>\$ 18,548</b>	<b>\$ 33,372</b>	<b>\$ 198,484</b>	<b>\$ 147,118</b>	<b>\$ 94,816</b>	<b>\$ 40,557</b>	<b>\$ 45,799</b>	<b>\$ 319,864</b>	<b>\$ 1,904,296</b>

The accompanying notes are an integral part of this statement.

CITY OF WINCHESTER, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2018

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	FEDERAL & STATE GRANT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:											
Taxes	\$ -	\$ -	\$ 145,193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 145,193
Intergovernmental	511,868	7,767	-	1,000	-	42,960	4,769	-	45,700	82,617	696,681
Investment Income	16,017	131	177	585	3,964	2,089	2,501	613	802	3,237	30,115
Other	200	-	1,398	2,000	54,719	8,895	-	17,497	-	71,046	155,755
<b>TOTAL REVENUES</b>	<b>528,085</b>	<b>7,898</b>	<b>146,768</b>	<b>3,585</b>	<b>58,683</b>	<b>53,944</b>	<b>7,269</b>	<b>18,110</b>	<b>46,502</b>	<b>156,900</b>	<b>1,027,743</b>
EXPENDITURES:											
City Commission	-	-	-	-	-	-	-	-	-	-	-
Main Street Department	-	-	-	1,200	87,559	-	-	-	-	-	88,758
Administration	-	-	-	-	-	-	-	-	-	-	-
Planning	-	-	-	1,173	-	-	-	-	-	-	1,173
Conservancy	-	-	-	-	-	-	-	-	-	-	-
Police Department	-	-	-	-	-	22,066	72,360	-	40,339	-	134,765
Fire Department	-	-	-	-	-	-	-	9,053	-	-	9,053
EMS	-	-	-	-	-	-	-	-	-	-	-
Public Works	350,062	14,250	-	-	-	-	-	-	-	5,150	369,462
Intergovernmental	-	-	146,768	-	-	-	-	-	-	-	146,768
Capital	140,858	-	-	-	-	-	-	-	-	212,866	353,724
<b>TOTAL EXPENDITURES</b>	<b>490,920</b>	<b>14,250</b>	<b>146,768</b>	<b>2,373</b>	<b>87,559</b>	<b>22,066</b>	<b>72,360</b>	<b>9,053</b>	<b>40,339</b>	<b>218,016</b>	<b>1,103,703</b>
Excess (Deficit) of Revenues over Expenditures	37,165	(6,352)	-	1,212	(28,876)	31,877	(65,091)	9,057	6,163	(61,116)	(75,960)
OTHER FINANCING SOURCES (USES):											
Operating transfers in	-	-	-	-	-	7,136	-	-	-	107,868	115,004
Operating transfers out	-	-	-	-	-	-	(3,568)	-	-	-	(3,568)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,136</b>	<b>(3,568)</b>	<b>-</b>	<b>-</b>	<b>107,868</b>	<b>111,436</b>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	37,165	(6,352)	-	1,212	(28,876)	39,013	(68,659)	9,057	6,163	46,752	35,476
Fund Balance June 30, 2017	966,284	7,124	2	32,160	214,335	108,104	159,908	31,499	39,635	160,260	1,719,311
Fund Balance June 30, 2018	\$ 1,003,449	\$ 772	\$ 2	\$ 33,372	\$ 185,459	\$ 147,117	\$ 91,249	\$ 40,556	\$ 45,798	\$ 207,012	\$ 1,754,787

The accompanying notes are an integral part of this statement.

***GOVERNMENT AUDITING STANDARDS REPORTS***

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

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
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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, 2018, 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 10, 2019.

### 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 10, 2019