

CITY OF WINCHESTER, KENTUCKY
AUDITED BASIC FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTARY DATA
AND INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2014

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PROFILE OF GOVERNMENT

The City of Winchester, Kentucky was incorporated in 1793. The city is the county seat of Clark County, which is in central Kentucky, commonly referred to as the Bluegrass Region. The City currently occupies 8.4 square miles (5,377 acres) and serves a population of 18,368 (2010 census).

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

The City Manager is responsible for carrying out the policies, orders, and ordinances of the Board and for overseeing the day-to-day operations of the City. The City Manager supervises Administration, which consists of the Legal, City Manager, Finance, Planning, Main Street, Engineering, and Administration departments. He also supervises the Central Communications, Police, Fire, Emergency Services (EMS), and Public Works departments. (The City of Winchester provides county-wide services, by agreement with the county, for Dispatch and EMS.)

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

WMU is a municipal utility enterprise fund separate from the City and which has been separately audited. A full discussion of WMU's financial activities can be found in that audit. WMU's audit was prepared by Summers, McCrary, and Sparks, PSC and was accepted by the utility commission on November 20, 2014.

The City's fiscal year begins July 1 and ends June 30, according to state statute. An annual budget, based on the fiscal year, is prepared by fund and department. Budget-to-actual comparisons are provided in this report.

The annual budget serves as the foundation for financial planning and control. All departments are required to submit budget requests in the early spring. The City Manager then uses these figures as a starting point for developing a draft budget. The draft budget is then submitted to the Board of Commissioners for first and second readings. The City is required to have a final budget in place before June 30.

CITY OF WINCHESTER, KENTUCKY
JUNE 30, 2014

OTHER INFORMATION

Emergencies

The City did not declare any emergencies.

Elected Officials

In the November 2014 election, the citizens re-elected Mayor Ed Burtner (four-year term); and Rick Beach, Kenny Book, Shannon Cox, and Kitty Strode as commissioners (two-year term) effective January 1, 2015.

Retirements

The City recognized four retirements this past year. Account Clerk Pam Price retired after five years of service. Police Sergeant Dwayne Green retired after 24 years of service. Police Officer Greg Vaught retired after 18 years of service. Public Works Equipment Operator Donald Lyle retired after 25 years of service.

ELECTED OFFICIALS

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

Mayor Edallen York Burtner
Commissioner Kenny Book
Commissioner Rick Beach
Commissioner Shannon Cox
Commissioner Kitty Strode

CONTACT INFORMATION

If you have any questions about this report or need additional information, the following people will be happy to help you.

Debbie Bailey
City Treasurer
32 Wall Street, P.O. Box 4135
Winchester, KY 40392-4135
859-744-1660
dbailey@winchesterky.com

Matthew Belcher
City Manager
32 Wall Street, P. O. Box 40
Winchester, KY 40392-0040
859-744-2821
mbelcher@winchesterky.com

CITY OF WINCHESTER, KENTUCKY
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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
859-744-5434
jennifers@wmutilities.com

Mike Flynn
General Manager
Winchester Municipal Utilities
150 North Main Street, P.O. Box 4177
Winchester, KY 40392-4177
859-744-5434

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

INDEPENDENT AUDITOR'S REPORT

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

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

STUART K. MCCRARY, JR., CPA
THOMAS S. SPARKS, CPA
JAMES R. WHITTEN, CPA
RYAN R. LASKI, CPA

SUSAN A. LACY, 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 City of Winchester, Kentucky as of and for the year ended June 30, 2014, 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 units, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of June 30, 2014, 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 and federal grant funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-29 and the police and firefighter's pension fund on pages 74-75 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 sections have 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 9, 2015, 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 9, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The management team of the City of Winchester presents this Management Discussion and Analysis to outline the financial highlights and provide their analysis of the financial reports by explaining changes in the financial data. This narrative is intended to disclose any known significant events or decisions that affect the financial condition of the City. In addition, supplementary information has been included that we hope will help our citizens understand the City's operations.

EXECUTIVE SUMMARY

We at the City continually strive to serve the citizens of this community. It is important to remember that serving our citizens requires both manpower and money to fund the day-to-day operations that improve the quality of life in our community.

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

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

The City makes every effort to hire and retain qualified people who deliver services to our citizens. To insure these services, employee wages and benefits are a vital component of the city's financial operations.

Personnel costs include wages, taxes, retirement, and insurance. The City granted a 2% cost-of-living (COLA) for FY2014 and a 2% COLA for FY2015. The City's self-insured employee health insurance plan continues to help manage the city's health care costs and keep those benefits on a sustainable level to protect both taxpayers and employees.

Retirement costs are mandated by the state. These rates are what the City pays on employee wages to the state-run retirement system (CERS-County Employees Retirement System). The table below shows how these rates have been increasing. For FY2014 the state granted a temporary one-year reduction. The decrease for FY2015 reflects changes made by the 2013 Kentucky legislature that reset the amortization period of the pension obligations. Employer contribution rates were lowered again for FY2016 due to the 2013 Kentucky legislative reforms. FY2016 rates are 17.06% for non-hazardous and 32.95% for hazardous employees.

	CERS RATES	
	<u>Non-Hazardous</u>	<u>Hazardous</u>
FY2016	17.06%	32.95%
FY2015	17.67%	34.31%
FY2014	18.89%	35.70%
FY2013	19.55%	37.60%
FY2012	18.96%	35.76%
FY2011	16.93%	33.25%
FY2010	16.16%	32.97%

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
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The total the City paid for retirement costs in FY2014 was approximately \$2 million. We estimate that retirement costs in FY2015 will be about \$2.2 million. In FY2014, local government employers benefitted from the first decrease in employer contribution rates since 2008. Lower rates reflect improved investment performance, changes in health insurance administration, and retirement benefit changes for the County Employees Retirement System.

These costs affect the goods and services that the City purchases to provide public services. The City, like any person or business, must pay for the things we use every day and the services that we have to buy from someone else. Some of the things we use every day are evident (paper, computers, uniforms, vehicles). But other things are not seen, like paying for gasoline or electricity. What is important, though, is that these costs are also increasing.

The management team of the City of Winchester presents this Management Discussion and Analysis to outline the financial highlights and provide their analysis of the financial reports by explaining changes in the financial data. This narrative is intended to disclose any known significant events or decisions that affect the financial condition of the City. In addition, supplementary information has been included that we hope will help our citizens understand the City's operations.

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 (EMS Revenue).

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 operating of city government. Comparing depreciation expense to our capital purchases can give us an indicator of whether our capital investments are keeping pace with the use of these assets.

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

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

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

Following the notes is the required supplementary information about the local pension fund (fiduciary fund).

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 revenue funds to control and manage money for particular purposes and to show that we are properly using certain taxes and grants.

FINANCIAL HIGHLIGHTS

We have only included the financial highlights for the City's governmental activities. Most of the amounts stated in this report are rounded to the nearest hundred to make the report easier to read. WMU issues a separate report which includes a management discussion and analysis for the component unit which is the only business activity/proprietary fund for the City. Copies of the WMU report may be obtained from Jennifer Sparks, Supervisor of Finance and Accounting, 859-744-5434, 150 North Main Street, Winchester, KY 40391.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Statement of Net Position

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, 2014 and 2013.

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 10,092,824	\$ 8,414,403
Capital assets	13,093,210	13,670,839
Total assets	23,186,033	22,085,242
Long-term debt outstanding	2,843,150	2,809,695
Other liabilities	1,911,580	1,457,324
Total liabilities	4,754,730	4,267,019
Net position:		
Net investment in capital assets	10,612,913	11,291,681
Restricted	847,015	769,542
Unrestricted	6,971,376	5,757,000
Total Net Position	\$ 18,431,304	\$ 17,818,223

Current and other assets significantly increased \$1,678,400. Current reserves in the General Fund increased \$822,400 while the Capital Equipment Fund cash reserves increased \$324,600 as revenues continue to exceed expenses. Receivables also increased in the governmental activities by \$503,100, mostly as the business tax revenues continue to recover with improvements in the local economy. Health insurance cash increased about \$269,000 because employee claims were down. Non-major governmental fund cash increased overall about \$57,400. Accounts Receivable increased about \$506,000, mainly due to loan proceeds for cardiac monitors and an increase in taxes receivable.

Capital assets decreased by \$577,600. Acquisitions totaled \$688,700 but depreciation of \$1,257,900 was recorded (difference of \$569,200). During this fiscal year, the City purchased cardiac monitors for the Emergency Medical Service (\$265,600). In addition, street and public work project improvements totaled nearly \$250,000.

CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014

At year-end, on-going engineering costs for the Fulton Road and Seventh Street projects are still in construction. These projects are still in the engineering and design stage.

Long-term debt increased slightly because we paid less on debt service than the new debt incurred to purchase the cardiac monitors. Outstanding bonded debt remains at 15.6% of net capital assets and 26.8% of available cash reserves, demonstrating that the city's bonded debt load is low.

Other liabilities increased \$454,300 with most of this change in accounts payable (\$264,100) and accrued payroll (\$98,600). Changes in Accrued Payroll and Related Liabilities are caused by timing differences in the year-end payrolls.

Payroll and Related Liabilities still includes about \$741,000 (back-pay, retirement, and taxes) attributable to an issue with firefighter overtime and state incentive pay. This liability is included on the government-wide financial statements, but not on the fund-wide statements. In 2007, the KY Court of Appeals ruled that the City of Louisville had to pay overtime on the state supplement based on a 40-hour work week. This ruling was in contradiction to the directions that had been provided by the KY Department of Labor. Winchester, along with several other cities, filed a lawsuit challenging the authority of the KY Department of Labor to enforce the Louisville decision. In August, 2013, the KY Supreme Court rejected those arguments.

On December 21, 2013, the Kentucky Labor Cabinet notified the City, that during its ongoing investigation into the City Fire Department's compliance with the Kentucky wage and hour laws, the Fire Department failed to compensate employees a disputed time and one-half amount. On January 12, 2013, the City issued payment for back wages totaling \$62,500 to employees specified by the Kentucky Labor Cabinet. The remaining group of firefighters filed suit against the City in Clark Circuit Court to recover the disputed overtime compensation. As yet, the court has not issued a ruling.

The City is still exploring legislative options and/or funding sources to pay for this liability. As such, it is uncertain at this time when this issue will be resolved.

Net Investment in Capital Assets decreased about \$678,800 as depreciation exceeded capital asset acquisitions and the cardiac monitors that were financed. Construction in progress increased \$89,700 as construction continues for the Fulton Road, Seventh Street, and Mast Arm Poles. Progress has slowed down. There have been some obstacles to these projects which we are striving to overcome.

The City's unrestricted net position is finally recovering from the economic downturn and increased over \$1,214,400 by the end of FY2014. This represents 54.1% of the City's annual net program expenses, a significant improvement in the City's financial position.

Statement of Activities

The *Statement of Activities* provides the operating results for all funds of the City, plus the component unit, Winchester Municipal Utilities, again using the accrual basis of accounting. This statement adds depreciation expense for each department but excludes the capital asset purchases. Another important feature of this report is the emphasis on *programs*. Line-items highlight the major components of the City's governmental operations and the columns

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014**

represent 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 2014 and 2013.

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,347,587	\$ 1,369,373
Grant funding	1,927,516	2,130,241
Capital contributions	167,895	8,375,299
General revenues:		
Property taxes	2,374,886	2,274,389
License fees and permits	1,059,470	951,110
Payroll taxes	7,546,048	6,733,146
Insurance premium tax	2,090,294	2,026,521
Transient room tax	116,471	117,236
Other taxes	116,338	116,344
Interest and investment earnings	43,223	43,374
Parking fines	1,390	2,055
Other local revenues	149,353	231,817
Gain(Loss) on Disposal of Fixed Assets	-	
Total Revenues	16,940,471	24,370,905
Program Expenses:		
General government	3,161,588	3,066,235
Public Protection		
Dispatch	781,796	753,168
Police	3,818,801	3,517,036
Fire	3,883,460	3,713,273
EMS	2,290,881	2,201,436
Public Services	1,474,978	1,290,571
Intergovernmental services	821,755	8,077,790
Interest on long-term debt	85,664	92,768
Total Expenses	16,318,922	22,712,277
Excess (deficiency) before transfers and special items	621,549	1,658,628
Loss on disposal of fixed assets	(8,467)	
Net increase (decrease) in net position	\$ 613,082	\$ 1,658,628

Charges for Services decreased about \$21,800, which is mostly attributable to a decrease in EMS revenue for ambulance transports. This revenue fluctuates because of accounts receivable and provider payments. We are uncertain how the Affordable Care Insurance Act will affect this revenue.

**CITY OF WINCHESTER, KENTUCKY
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Total grant funding decreased about \$202,700. Some of the main reasons include: 911 Revenue was down \$36,800; Fiscal Court Planning & Zoning was down \$51,700; Federal Forfeiture revenue was down about \$93,000; and the Nonpoint Source Pollution Control Grant was down \$33,200.

Several major grant projects were completed in the prior year, so capital contributions/grant funding (except for water and sewer projects) decreased \$202,700 from FY2013 to FY2014. Water and sewer funding for the Winchester Municipal Utilities are included in the capital contributions since the City receives these funds from the Kentucky Infrastructure Authority, which then transfers to WMU for plant and utility improvements. Those projects decreased \$7.2 million over the last year. The transfer to WMU is included in Intergovernmental Services expenses and explains the significant decrease in that cost category.

Property taxes increased just over \$100,000. The City Commission voted to levy the maximum rate allowed by state law (14.6 cents per hundred). However total assessments increase only slightly and there were no new additions. Payroll taxes continued to grow, increasing \$812,900 over the prior year. This growth is due to the rate increase from 1.5% to 2% effective October 1, 2012, continued improvements in the local economy, and several industrial expansions. Licenses and Permits increased about \$108,000. Insurance Premium taxes also increased about \$64,000.

Operating expenditures for all departments increased about \$869,800. The major components of this increase are due to personnel, retirement, and health insurance costs. Also, depreciation is included in this table.

The huge decrease in Intergovernmental Services is mainly because there was less grant activity. The Kentucky Infrastructure Loan for the Lower Howard's Creek project accounts for most of the grant activity in the previous year.

Governmental Funds Balance Sheet

The following table summarizes the *Governmental Funds Balance Sheet* for 2014 and 2013.

Governmental Funds Balance Sheet			
June 30,			
	<u>2014</u>		<u>2013</u>
Assets:			
Cash and Cash Equivalents	\$ 7,644,441	\$	6,440,066
Accounts Receivable	2,473,616		1,990,694
Prepaid Expenses	6,464		6,574
Other Assets	-		-
Total Assets	<u>\$ 10,124,520</u>	\$	<u>8,437,334</u>
Liabilities:			
Accounts Payable	\$ 383,686	\$	119,982
Accrued Payroll & Related Liabilities	298,148		199,550
Due to Other Funds	31,696		-
Total Liabilities	<u>713,530</u>		<u>319,532</u>
Fund Balances:			
Restricted	847,015		769,542
Committed	2,714,853		2,424,607
Assigned	675,294		406,280
Unassigned	5,173,828		4,517,373
Total Fund Balances	<u>9,410,990</u>		<u>8,117,802</u>
Total Liabilities & Fund Balance	<u>\$ 10,124,520</u>	\$	<u>8,437,334</u>

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As we noted earlier, cash and cash equivalents increased \$1.2 million, reflecting the city's continued improvement in cash reserves and financial position. Accounts Receivable increased \$483,000. Most of this is attributable to an increase in payroll taxes and the receivable for the cardiac monitor loan proceeds.

Current liabilities increased \$373,300. Much of this is the account payable recorded for the cardiac monitors. These were financed in FY2014, received in FY2014, but not paid until FY2015. Accrued Liabilities increased almost \$99,000 due mostly because employee withholding accounts were not paid out until July, 2015.

Restricted fund balance includes those amounts that are subject to constraints imposed by third parties. Committed fund balance indicates reserves that the City Commission has set aside for specific purposes through the adoption of ordinance. Assigned fund balance describes amounts that management or the Commission have designated for specific purposes. Unassigned fund balance amounts are not constrained by any specific project restrictions.

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

- Restricted – grant funds from federal, state, or local sources
- Committed – capital equipment fund and public safety special projects
- Assigned – self-insurance fund for health care benefits
- Unassigned – residual balance in General Fund

Restricted funds increased \$77,500, representing obligations for grant projects that have not been completed (Fulton Road, Seventh Street, and Downtown Mast Arms). Committed funds increased \$290,000, primarily because of the increase in Capital Equipment Fund, (which is restricted to capital purchases. Assigned funds include the self-insured health and these funds increased \$269,000, part of the overall cash increases. Unassigned funds (General Fund) increased \$657,000, ending the year with another operating surplus.

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

The *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance* show revenues and expenses using the modified accrual basis of accounting. Results of operations are very similar to the statement of activities—revenues continue to lag the costs of operations.

The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2014 and 2013.

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
REVENUES:		
Taxes	\$ 12,244,037	\$ 11,267,636
Licenses & Permits	1,059,470	951,110
Charges for Services	1,347,587	1,369,373
Fines	1,390	2,055
Intergovernmental	2,095,412	10,505,540
Investment Income	43,223	43,374
Other	149,353	231,817
TOTAL REVENUES	<u>16,940,471</u>	<u>24,370,905</u>

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Governmental Operating Statement (Continued)		
	2014	2013
EXPENDITURES:		
General Government	2,491,523	3,299,716
Public Safety	10,204,507	9,624,617
Public Works	1,366,625	1,431,604
Intergovernmental	821,755	8,077,790
Capital	688,713	775,031
Debt service principal	254,086	261,908
Debt service interest	85,664	92,768
TOTAL EXPENDITURES	15,912,872	23,563,433
Excess (Deficit) of Revenues over Expenditures	1,027,599	807,472
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term borrowing	265,589	204,784
Infrastructure contributions		
Operating transfers in		
Operating transfers out		
TOTAL OTHER FINANCING SOURCES (USES):	265,589	204,784
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	1,293,188	1,012,256
Fund Balance, beginning	8,117,802	7,105,546
Fund Balance, ending	\$ 9,410,990	\$ 8,117,802

The difference between revenues and expenses show how total fund balance has changed since last year. Total fund balance increased almost \$1,294,000. Operating surpluses continued to improve with the economy and cost-saving measures for public programs and services.

Total taxes continued to increase (another \$976,400), mainly as a result of the payroll tax rate increase and more jobs added to local economy. License and Permits includes our electric and gas utility franchises, which increased about \$65,600 because the 2013-2014 winter brought a polar vortex to central Kentucky. Charges for Services (EMS revenue) decreased \$21,800.

The large decrease in intergovernmental revenue and expenses is mostly because of the KIA Lower Howard's Creek and KIA Bel Air pump station projects that we noted earlier.

Debt service slightly decreased since the City added a new capital lease for cardiac monitors and leases for an ambulance and fire truck were paid in full.

Capital and Operating Activities

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

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FY 2014 Governmental Activities			
	Capital	Operating	Total
Revenues	\$ 1,289,507	\$ 15,916,553	\$ 17,206,060
Expended	<u>(981,815)</u>	<u>(14,931,057)</u>	<u>(15,912,872)</u>
Net	<u>\$ 307,692</u>	<u>\$ 985,496</u>	<u>\$ 1,293,188</u>

FY 2013 Governmental Activities			
	Capital	Operating	Total
Revenues	\$ 1,172,529	\$ 23,403,160	\$ 24,575,689
Expended	<u>(775,031)</u>	<u>(22,788,402)</u>	<u>(23,563,433)</u>
Net	<u>\$ 397,498</u>	<u>\$ 614,758</u>	<u>\$ 1,012,256</u>

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance) and proceeds from long-term borrowing (cardiac monitors). Operating revenues and expenses decreased, mainly due to the completion of KIA funding for WMU and the continued healthy growth in payroll taxes. Excluding the transfer to WMU, operating revenues and costs held steady compared to FY2013.

The City finished another year with a much healthier surplus. This is mainly due to the increase in tax revenues and a much-improved economy. The City is working very hard to address revenue and expense issues. We have approved several economic development projects and are pursuing more of these projects for our community.

BUDGETARY HIGHLIGHTS

This section explains significant changes between the original and final adopted budget. The Schedule of Revenues, Expenditures, Changes in Fund Balance Budget-To-Actual financial reports begin on Page 47 with reports for the General Fund and two major special revenue funds.

Actual General Fund revenue exceeded budget estimates by about \$193,000. Tax revenues exceeded budget by more than \$1.04 million as property values improved, more jobs were added to the local economy, and occupational license fees increased. License and Permits exceed budget by \$109,000.

Most of the general fund under-budget difference (under budget by \$783,000) is attributed to Charges for Services, which includes Reimbursable Grant Income and EMS Revenue.

A major component of the budgeted Reimbursable Grant Income is the CDBG Disaster Recovery Grant (\$621,000). The only grant activity for the year is engineering costs. This project was budgeted in General Fund because it was thought to be a reimbursable grant. However, the grant is not reimbursable but stands alone in the Special Revenue Fund (Federal & State Grant Funds). This is also why Public Works expenses came in under budget. At year end, reimbursable grants revenue and expenses are transferred to federal, state, and local grant financial statements.

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Operating expenses were under budget by about \$1.8 million, mostly because Public Works expenses came in under budget since the CDBG grant should not have been included in General Fund. Also, some of this is attributable to personnel. The Planning, Communications, Police, Fire, and EMS did not have all of their positions filled for the entire year.

In the Capital Equipment Fund, other income came in under budget by about \$350,000. This was budgeted as a revenue in Capital Financing for SCBA (self-contained breathing apparatus) equipment. However, cardiac monitors were purchased instead of the SCBA equipment. On the Budget-To-Actual, the revenue is listed as Proceeds from Long-Term Debt.

There was a budgeted transfer of \$400,000 from Capital Equipment to General Fund that was put in place should general fund revenue expectations not be met. Fortunately, we did not need to make this transfer.

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. Most are self-explanatory.

The first budget amendment added the following:

1. Added \$65,650 to GF expenses for various departmental items.
2. Added \$350,000 to CEF revenue for capital financing of cardiac monitors.
3. Added \$24,000 to CEF expenses for various departmental items.
4. Added \$350,000 to CEF expenses (EMS) for the purchase of cardiac monitors.
5. Added \$1,335,200 to CDBG/Other Grants for the Nonpoint Source Pollution Control grant, KIA loan project for Bel Air/Westside pump station upgrade, and CDBG Disaster Recovery Grant.
6. Added \$9,200 to Police Department Federal Forfeiture for purchase of repeater.

The second budget amendment added the following:

1. Added \$2,000 to GF expenses (Transfers) for an additional allocation to Parks & Recreation
2. Added \$26,000 to CEF expenses (Communications) for a damaged recorder.

MAJOR CAPITAL PROJECTS FOR THE YEAR

Capital assets provide an important resource for supporting a variety of governmental programs and services. The City uses local tax revenues as well as federal and state grant funding to help finance critical infrastructure and public property improvements. During FY2014, the City was working on the following capital projects to enhance public programs and services.

Buildings

In FY2014, the City made various improvements/repairs to City Hall, the Police Department building, three Fire stations, and the Public Works buildings at a total cost of about \$70,185. Of this total, \$17,990 was the demolition of the fire training tower.

The fire training tower at Station #3 was built in 1992 at a cost of \$91,500. The state of Kentucky provided \$50,000 and the City provided \$41,500. Over the years, the training tower has deteriorated. In 2013, a structural engineer deemed the building unsafe. On September 9,

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2013, an order was approved to demolish the building. At this time, it is cost prohibitive to rebuild a training tower.

Curbs, Gutters, Sidewalks, Other

There were no projects in FY2014.

Storm Sewer Projects

In 1992, the City of Winchester recognized that its storm sewer infrastructure system was beginning to show signs of deterioration. The City spent \$1,538 for minor storm drain repairs. As of June 30, 2014, \$1,255,000 has been spent to replace and/or restore existing storm sewers.

The City and WMU have known about the problems with the Maple Street sanitary sewer. On July 16, 2013, the Commission approved Order No. 2013-110 to execute a Memorandum of Understanding (MOA) with WMU for the Maple Street Sanitary and Storm Sewer Water Improvement Project. The City will reimburse WMU for the engineering and construction costs related to the storm sewer portion of the project. On September 30, 2013, the City approved Order #2013-143 to execute a Memorandum Of Understanding to pay \$48,356.25 to WMU for engineering costs related to the project. Construction on the project will begin January, 2015. The City has paid the following to WMU for our portion of the project:

1. \$24,801.68 on 04-28-2014
2. \$5,833.47 on 06-29-2014

In 2010, a major flooding event occurred. It was determined that several areas in the Poynterville area suffered damage from the flood. In FY2013, the City was awarded a \$621,000 Community Development Block Grant to replace or repair the failing systems. The following projects are included in this grant.

1. Spring Street culvert replacement
2. C. G. Stephenson Drive storm system repair
3. Virginia Avenue storm system repair
4. Fifth Street culvert replacement
5. Evans Street curb replacement
6. Meadow Street curb replacement
7. Pearl Street overflow replacement

On August 6, 2013, the Commission approved Order No. 2013-118 for an engineering contract for the CDBG grant for an amount not to exceed \$57,700. The Bluegrass Area Development District is administering the grant. On May 6, 2014, the Commission approved Order No. 2014-31, an amendment to the Community Development Block Grant Winchester Storm Sewer Rehabilitation Project to extend the completion date from June 30, 2014 to June 30, 2015. The grant is still in the engineering phase. The construction project will be bid November, 2014. At June 30, we have spent \$43,377 on engineering costs.

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Roads and Bridges

The City street system consists of approximately 80 miles of two-lane paved roads and alleys. The City also contains some state roads and it is the state's responsibility to maintain those roads. The City uses Municipal Aid Program Funds (from the state) to maintain city streets. The City spent \$217,285 maintaining city streets.

The City accepted several streets into the City street system. On January 7, 2014, the City accepted approximately 530 feet of the renovated Depot Street at an asset value of \$1,048,957 by Order #2014-1. It is City policy to accept streets into the system on the condition that the developer is responsible for repairs to the streets for one year following acceptance. However, the City already owned this street, but made major repairs.

The City received notice in May, 2014, from the Kentucky Transportation Cabinet that the final section of the Winchester Bypass has been funded with \$42.4 million in the six-year highway plan.

KY Department of Transportation JL-04 Bond Fund

In FY2011, the City applied to the Kentucky Department of Transportation (KDOT) for JL-04 bond funds for three projects: (1) Fulton Road Extension Project; (2) Seventh Street Relocation Project; and (3) Downtown Mast Arms. The state has approved \$585,000 for the Fulton Road project – design, right-of-way acquisition, and utility relocation. The state has approved \$240,000 for the Seventh Street project – design. Contracts for the first phase of these two projects (engineering) were awarded June, 2011. As of June 30, 2014, the engineering and appraisal costs on these two projects were \$131,100 and \$197,800 respectively.

When these first phases are completed, the state will consider additional funding for the second phases of these projects (Fulton Road Phase II - \$415,000 and Seventh Street Phase II - \$260,000). On April 15, 2014, we approved Order No. 2014-25 with the KDOT for \$160,000 for the downtown mast arms project. An engineering contract was approved July 15, 2014.

Franchise

There were no new franchise agreements. The Kentucky Utilities current franchise agreement expires in 2015. The Columbia Gas franchise agreement expires in 2017.

Land

On September 3, 2013, the City purchased 21 Almond Street (for \$1,500) by Order No. 2013-132. The house was subsequently demolished at a cost of \$5,465. On June 12, 2014, the City purchased 103 Spring Street by Order No. 2014-64.

Annexation

On September 3, 2013, the City annexed 44.43 acres of Fairholme Estates (south and east of Fairholme Way and west of Two Mile Road) by Ordinance 12-2013. On November 19, 2013, the

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City annexed 24.9 acres of a portion of KY627 right-of-way and 89.15 acres of land containing the new George Rogers Clark High School by Ordinance No. 16-2013.

Land Improvements

There were no major land improvements in FY2014.

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 FY2014, the City applied for several grants. Listed below is the status of grant applications.

1. Kentucky CMRS Grant, Upgrade 911 Phone System, \$140,000, pending, subsequently approved
2. Kentucky Department of Transportation, Highway Safety Grant, Click It or Ticket, \$2,000, approved
3. Kentucky Department of Transportation, Highway Safety Grant, Impaired Driving, \$4,000, approved
4. Kentucky Homeland Security Grant, EMS Equipment, \$20,225, approved
5. Kentucky Homeland Security Grant, Fire/EMS Communications Equipment, \$34,000, approved
6. Kentucky Homeland Security Grant, Microwave Link Project, \$10,752, subsequently approved
7. Kentucky Homeland Security Grant, Police Security Equipment, \$3,306, denied
8. Land and Water Conservation Grant, Winchester Youth Soccer Complex, denied

The following grants were received prior to FY2014 and are still ongoing.

1. CDBG Disaster Recovery Program Grant, \$621,000, culvert reconstruction
2. Kentucky Nonpoint Source Pollution Control Grant, Lower Howard's Creek Watershed Improvement Initiative, \$303,709 (60/40 match)

One grant was completed and closed out during FY2014.

1. KIA Infrastructure Grant, Bel Air/Westside Pump Stations, \$1,000,000

STORMWATER CONCERNS

The United States Environmental Protection Agency (EPA) requires Kentucky to issue permits for MS4 (Municipal Small Separate Stormwater System) projects to protect water quality. Winchester is a Phase II community. The Kentucky Division of Water (KDOW) issued our first NPDES (National Pollution Detection Elimination System) permit September 2003. Our second NPDES permit was issued April 2010.

The KDOW issued a Notice of Violation to Winchester in December 2010 for deficiencies identified in the Violation Referral Form as a result of an August 2010 inspection. The notice was subsequently lifted once the Kentucky Department for Environmental Protection determined that we had taken sufficient action to address the violations. One of these requirements is on-

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going public education for citizens and contractors. We have several initiatives underway to engage the public on stormwater education. A stormwater manual was developed in 2014 that will help contractors meet the City's requirements.

To address these deficiencies, the City engaged the engineering services (Order No. 2011-8) to achieve satisfactory compliance for Plan Year 1 (Phase II permit). The City approved another order on September 20, 2011 with the engineering firm for Plan Years 2-5 for support and consulting services for compliance and achieving tasks and goals for this second permit term (program development, regulatory assistance, outfall mapping, data management, and assistance with meeting identified tasks).

The City engaged the same engineering firm (Order No. 2013-81 and Order No. 2014-93) for development of a stormwater quality management plan (Plan Years 2-5). We are nearing the completion of our first permit cycle with the KDOW with regard to the MS4 program. We will soon be entering our second 5-year permit. The following ordinances were also adopted as part of this plan:

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

ECONOMIC DEVELOPMENT

The City has been fortunate in the development of the Industrial Park on the north side of town. The Winchester/Clark County Industrial Development Authority (WCC-IDA) oversees development of the Park. WCC-IDA is funded by the City and the County. The Industrial Park development began in 1980. Phase VI provided an additional 300 acres to be used for development. Approximately \$2.4 million of infrastructure improvements (water and sewer lines) were installed in the Phase VI development.

The Kentucky Transportation Cabinet provided up to \$2.8 million in reimbursable funding to the Clark County Fiscal Court to construct a bridge over the CSX railroad tracks on Van Meter Road for access from Exit 94 on Interstate 64 into the Industrial Park. Construction for the road and bridge began April, 2008 and was completed during FY2009. This has provided better access to the Bluegrass Community & Technical College (BCTCS) and another route for industrial traffic.

The BCTC Winchester-Clark County Campus continues to add value to our community. The college provides workforce training for companies in Clark and surrounding counties. Over 600 students were enrolled during the fall of 2013. The college also provides instruction and testing for people pursuing their General Education Diploma (GED). During the fall of 2014, the college instituted the 1+1 Integrated Engineering Technology class. This project provides one year of college classwork in high school and one year of college classwork after graduation to obtain an associate's degree in industrial maintenance.

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The college has an on-sight childcare facility and has also added a 600-seat outdoor amphitheater, in addition to the existing walking trail, and was christened THE GREEN Trail & Amphitheater. This outdoor public space has been used for several special events, including three moonlight movie nights. More than 1,100 people have attended these movie nights, which makes for great family fun.

We have several businesses/manufacturers that operate in the City and continue to thrive. The following companies (outside of the industrial park) employ almost 1,600 people.

1. AHC Products & Packaging
2. Ale-8-One Bottling Company
3. Apollo Oil & Warehouse
4. Gate Bluegrass Precast
5. General Dynamics
6. Harry Gordon Steel
7. Johnson Controls, Inc.
8. Kentucky Fertilizer (Caudill Seed)
9. Leggett & Platt
10. Osram Sylvania
11. Pepsi-Cola Bottling Company
12. The Freeman Corporation

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

Economic development continues to increase. We began the fiscal year with a 7.7% unemployment rate (down from 8.2% at the same time last year) and ended the fiscal year with a 7.1% unemployment rate. As of August 2014, the unemployment rate has dropped to 6.5%, its lowest rate since June, 2008.

Since 2005, 17 new companies have moved to our community and 21 existing industries have invested about \$250 million in existing/additional building for their businesses. This has created approximately 2,500 new jobs and nearly \$62 million in payroll for the employees.

Our per capita income has increased 23% (to \$36,842) and household income has increased 14% (to \$45,116). WCC-IDA will continue efforts throughout the community to put people back to work.

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

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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. So far, we have six local participation agreements – Alltech, Catalent, Caudill Seed, General Dynamics, Taica, and Walle. The table shows the activation dates. That is when the term begins for each project.

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

The Kentucky Economic Development Bond (EDB) program is used for extraordinary project financing not covered with other funds. This program can be funded by the state or the local district. The KEFDA approved (03-29-2012) an EDB of \$250,000, through the City of Winchester, for Amazon. This EDB grant was funded by the WCC-IDA. We have an agreement with the WCC-IDA to repay this \$250,000 to the Authority over a five-year period. The start date on this grant is February 28, 2013 and the end date is November 30, 2017.

Community Development Block Grants (CDBG) are federally funded low-interest loans made available through the Department of Local Government. Our current CDBG grant is the \$621,000 Disaster Recovery Grant mentioned before under *Storm Sewer Projects*.

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.

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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			
Alltech Inc	KBI	\$14,000,000	\$3,000,000	NA	40	Reso #R2012-6 6/19/2012 Term 10 yrs	1%	6/28/2014
AMZN wacs Inc	KBI	\$20,411,340	\$10,250,000	NA	550			
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
Caudill Seed & Warehouse Co Inc	KBI	\$775,000	\$300,000	NA	18	Reso #R2014-6 5/19/2014 Term - 10 yrs	1%	6/26/2016
Harry Gordon Steel Company	KBI	\$5,572,000	\$300,000	20	24			
J&T Munitions Inc dba J&T Distributing	KBI	\$3,615,800	\$200,000	NA	15			
J&T Munitions Inc dba J&T Distributing	KIDA	\$998,000	\$240,000	24	15			
Sekisui S-LEC America, LLC	KIDA	\$43,240,000	\$1,600,000	NA	80			
Senko (USA) Inc	KBI	\$7,575,000	\$250,000	NA	16			
Taica Corporation	KBI	\$8,049,232	\$500,000	NA	30	Reso# R2014-5 5/6/2014 Term 10 yrs	0.50%	
The Freeman Corp	KBI	\$3,440,000	\$500,000	202	32			
General Dynamics (Vangent)	KBI	\$12,000,000	\$2,500,000	NA	150	Reso #R2014-4 3/17/2014 Term - 10 yrs	1%	7/31/2016
Walle Corporation	KBI	\$4,135,000	\$500,000	114	23	Order #2012-117 10/12/2012 Term - 10 yrs	1%	6/26/2016
KBI - Kentucky Business Investment Program KIDA - formerly KBI								

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Industrial Park

Several companies at the Industrial Park have invested in expansion projects or built new facilities. Amazon completed construction on their 80,000 square foot customer support center and transferred from their temporary location in the Winchester Plaza to the new center July, 2013. Catalent has continued the construction of a \$35 million expansion. J&T Munitions is continuing their third building expansion, a 40,000 square foot facility. Univance just completed one expansion which doubled the size of their plant and they have begun a second expansion.

The Industrial Park includes the following companies and employs over 2,700 people.

1. Advanced Green Components (AGC)
2. Ainak
3. Alltech
4. Amazon
5. Brake Parts
6. Catalent Pharma Solutions
7. Contech Construction Products
8. Custom Cylinders International
9. God's Pantry
10. Infiltrator Systems, Inc.
11. J & T Munitions, Inc., dba J & T Distributing
12. Kentucky Heat Treat
13. Kraft Brothers
14. Man-Sea Metal
15. Precision Mechanical
16. Reidy Medical Supply
17. Royal DSM (formerly Martek Biosciences)
18. Rocky Mountain ATV
19. Sav-A-Lot
20. Sekisui S-LEC America, LLC
21. Senko (USA Inc.)
22. Sonoco
23. TAICA North American Corporation
24. Univance
25. Walle Corporation
26. Winchester Coatings
27. Winchester Farms Dairy

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 three years ago, the city and county created a TIF district in the area around Winchester Plaza. (See *Tax Increment Financing*) There are five retailers and one new restaurant. The theater was completely renovated. They have nine new digital screens, surround-sound, and 3-D capability. These businesses continue to thrive. Although Amazon moved to the Industrial Park, that vacancy will soon be filled. The TIF district has been a success.

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Three 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. Since then, the hospital has built a 4,600 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.

Vangent, Inc., dba General Dynamics, is a new customer support center for Medicare. Vangent purchased and renovated the vacant HP building. Vangent has received final approval for KBI state tax incentives. (See *Business Incentive Projects*)

The City finished the Depot Street Project last fiscal year. The renovated street has greatly enhanced the area. The City and the Clark County Fiscal Court will apply for grant funding to rehabilitate the Sphar building.

The Daniel Boone Pioneer Festival has been in existence for 36 years. The festival is held on Labor Day weekend and it is a huge success every year. We are proud that the Southeast Tourism Association has named it as one of the top 10 festivals in Southern United States.

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. The City had its sixth Beer Cheese Festival on June 14, 2014. The festival has also been a huge success. Last year, Winchester First began a mural project for the downtown area. Two years ago, local artists painted an historical mural on the side of a hardware business. Last year, those same artists painted another historical mural on the side of grocery store facing Depot Street. This year the artists painted another mural on the side of a pharmacy that can be seen from KY627. These murals have improved our downtown beauty. Winchester First is also working on a loan program to aid downtown investment.

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 four years ago. Business activity in the area continues to thrive. However, since Amazon moved into their permanent building, the corresponding drop in payroll taxes has decreased the 2013 payment to the developer. Winchester Plaza is still an improved anchor for our community. The following table summarizes the City's pledge to date.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014**

WINCHESTER PLAZA TIF DISTRICT	
2013	\$17,014.70
2012	\$39,667.40
2010-2011	\$14,884.45
Total Payments to Date	<u>\$71,566.55</u>

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 would retain 65% and pay the County 35%.

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. However, the split is now 63/37. The term for the high school is five years beginning January 1, 2014 and the split is 70/30. The following table summarizes the revenue we have committed to the Fiscal Court to date.

REVENUE SHARING FISCAL COURT	
2012	\$128,019.12
2013	\$150,969.02
2014 - 1st qtr	\$52,761.94
Total Payments to Date	<u>\$331,750.08</u>

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. The City anticipates that development of the eastern bypass will bring about balanced residential and business growth on the east side of Clark County.

The local economy has improved and continues to grow. We began the fiscal year with a 7.7% unemployment rate (down from 8.2% at the same time last year) and ended the fiscal year with a 7.1% unemployment rate. We have had huge success with existing industry, new industry, and new businesses. We have numerous inquiries from potential businesses. New companies, new investment, and new jobs have all contributed to economic stability.

CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014

The City, like most Kentucky communities, is highly dependent on occupational license fees, insurance premiums taxes, and property taxes for funding governmental services. Because the unemployment rate is decreasing, more people are working, which helps improve the City's tax base.

The City approved the maximum allowable real property tax rate for calendar year 2013 and a tangible tax rate that was slightly lower than the maximum allowable rate (FY2014). The rates were the same as the previous year. The FY2014 budget was based on the maximum allowable rate, so this revenue exceeded budget expectations.

The Commission approved a payroll tax increase that took effect October 1, 2011. This rate change, plus an increase in the work force, is now yielding higher revenues. Cuts in the operating costs have brought the City's budget back to surplus funding, which will allow for enhancing services that were curtailed during the recession.

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) the possibility that the state retirement system will increase mandated pension rates upon Kentucky cities that are not sustainable in the long-run for our community; and (2) health insurance costs continue to rise.

During our FY2014 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2014, 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 will exceed expenses.
2. The impact of unfunded federal mandates.
3. The impact of global economics.

There have been no changes in funding polices since the Commission approved a motion on May 19, 2004 to maintain a general fund balance at \$2 million. During the month of September, 2013, general fund cash fell below the \$2 million threshold. However, the rest of the fiscal year remained above that target, mainly as a result of the increase in the occupational license fee.

Our economy continues to improve. However, the future of yearly COLA's, retirement costs, and health insurance will still be problematic. These are some of the major issues that the City is confronted with and will be challenged with in the future.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2014**

We are committed to delivering quality services to our residents and visitors. Our mission is to provide our citizens with essential and important governmental services. We note that the Mayor and Commissioners' number one priority is bringing jobs back to our community and removing any barriers that are a hindrance to new or existing businesses. They have, and still are, working diligently toward that end.

CONTACTING THE CITY'S FINANCIAL TEAM

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	<u>PRIMARY GOVERNMENT</u>		<u>COMPONENT UNIT</u>
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>TOTAL</u>	
ASSETS:			
Current Assets			
Cash and Cash Equivalents	\$ 7,644,441	\$ 7,644,441	\$ 8,701,555
Restricted Cash and Cash Equivalents	0	0	358,537
Restricted Investments	0	0	4,437,759
Accounts Receivable			
Taxes	1,640,513	1,640,513	
Accounts, net	297,402	297,402	1,932,060
Intergovernmental	218,191	218,191	0
Loan Proceeds	285,814	285,814	0
SDC Receivables	0	0	933,500
Other Accounts Receivables	0	0	147,974
Prepaid Expenses	6,464	6,464	539,827
Accrued Interest	0	0	200
Inventories	0	0	323,550
Total Current Assets	<u>10,092,824</u>	<u>10,092,824</u>	<u>17,374,962</u>
Restricted Assets			
Cash and Cash Equivalents	0	0	7,946,389
Total Restricted Assets	<u>0</u>	<u>0</u>	<u>7,946,389</u>
Noncurrent Assets			
Construction in Progress	434,519	434,519	1,808,523
Land	1,994,503	1,994,503	1,519,050
Net Capital Assets	<u>10,664,187</u>	<u>10,664,187</u>	<u>107,828,287</u>
Total Noncurrent Assets	<u>13,093,210</u>	<u>13,093,210</u>	<u>111,155,860</u>
TOTAL ASSETS	<u>\$ 23,186,033</u>	<u>\$ 23,186,033</u>	<u>\$ 136,477,211</u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 361,125	\$ 361,125	\$ 796,906
Other Accrued Liabilities	0	0	248,874
Due to Other Funds	22,561	22,561	0
Accrued Payroll & Related Liabilities	1,039,622	1,039,622	0
Incurred but Not Reported Health Claims	113,661	113,661	0
Current portion of Lease Obligations	<u>374,611</u>	<u>374,611</u>	<u>0</u>
Total Current Liabilities	<u>1,911,580</u>	<u>1,911,580</u>	<u>1,045,780</u>
Current Liabilities from Restricted Assets			
Customer Deposits	0	0	148,951
Accrued Interest Payable	0	0	103,667
Current Portion of Bonds	<u>0</u>	<u>0</u>	<u>3,234,152</u>
Total Current Liabilities from Restricted Assets	<u>0</u>	<u>0</u>	<u>3,486,770</u>
Noncurrent Liabilities			
Net Pension Obligation	532,035	532,035	0
Noncurrent Portion of Lease Obligations	1,671,169	1,671,169	0
Noncurrent Portion of Bonds	0	0	63,212,031
Accrued Sick Leave	<u>639,946</u>	<u>639,946</u>	<u>463,821</u>
Total Noncurrent Liabilities	<u>2,843,150</u>	<u>2,843,150</u>	<u>63,675,852</u>
TOTAL LIABILITIES	<u>4,754,730</u>	<u>4,754,730</u>	<u>68,208,402</u>
NET POSITION			
Net Investment in Capital Assets	10,612,913	10,612,913	44,606,010
Restricted	847,015	847,015	0
Restricted for Capital Projects	0	0	11,582,804
Restricted for Bond Debt Service	0	0	999,287
Unrestricted	<u>6,971,376</u>	<u>6,971,376</u>	<u>11,080,708</u>
TOTAL NET POSITION	<u>18,431,304</u>	<u>18,431,304</u>	<u>68,268,809</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 23,186,033</u>	<u>\$ 23,186,033</u>	<u>\$ 136,477,211</u>

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (3,161,588)	\$ 88,823	\$ 22,702	\$ 34,198	\$ (3,015,865)	\$ (3,015,865)	
Public Safety:							
Dispatch	(781,796)	0	557,312	1,313	(223,170)	(223,170)	
Police	(3,818,801)	0	236,250	20,225	(3,562,327)	(3,562,327)	
Fire	(3,883,460)	0	243,812	0	(3,639,647)	(3,639,647)	
EMS	(2,290,881)	1,258,763	362,572	53,107	(616,439)	(616,439)	
Public Works	(1,474,978)	0	484,369	59,052	(931,557)	(931,557)	
Intergovernmental Services	(821,755)	0	20,500	0	(801,255)	(801,255)	
Interest on Long-Term Debt	(85,664)	0	0	0	(85,664)	(85,664)	
Total Governmental Activities	(16,318,922)	1,347,587	1,927,516	167,895	(12,875,924)	(12,875,924)	
Total Primary Government	\$ (16,318,922)	\$ 1,347,587	\$ 1,927,516	\$ 167,895	\$ (12,875,924)	\$ (12,875,924)	
Component Unit							
Winchester Municipal Utilities	\$ (14,222,634)	\$ 16,394,716	\$ 145,811	\$ 611,460			\$ 2,929,353
			General Revenues:				
			Taxes:				
			Property	\$ 2,374,886	\$ 2,374,886	\$ 0	0
			Licenses & Permits	1,059,470	1,059,470	0	0
			Payroll	7,546,048	7,546,048	0	0
			Insurance Premium	2,090,294	2,090,294	0	0
			Hotel/Motel Room Tax	116,471	116,471	0	0
			Telecommunications Excise Tax	116,338	116,338	0	0
			Investment Income	43,223	43,223	88,357	88,357
			Parking Fines	1,390	1,390	0	0
			Gain (Loss) on disposal of fixed assets	(8,467)	(8,467)	46,604	46,604
			Other Local Revenues	149,353	149,353	191,641	191,641
			Total General Revenues	\$ 13,489,006	\$ 13,489,006	\$ 326,602	326,602
			Capital Contributions	0	0	0	0
			Change in Net Position	613,082	613,082	3,255,955	3,255,955
			Net Position June 30, 2013	17,818,222	17,818,222	65,172,584	65,172,584
			Cumulative Effect of Change in Accounting Principle	0	0	(159,730)	(159,730)
			Net Position June 30, 2013, Restated	17,818,222	17,818,222	65,012,854	65,012,854
			Net Position June 30, 2014	\$ 18,431,304	\$ 18,431,304	\$ 68,268,809	68,268,809

See Auditor's Report and Accompanying Notes

FUND FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014

	GENERAL FUND	CAPITAL EQUIPMENT FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and Cash Equivalents	\$ 4,090,950	\$ 2,320,460	\$ 1,233,031	\$ 7,644,441
Accounts Receivable				
Taxes (net of allowance for doubtful accounts \$71,820)	1,640,513			1,640,513
Accounts, Net of allowance for doubtful accounts (\$275,994)	297,402			297,402
Intergovernmental	148,125	15,809	54,257	218,191
Loan Proceeds		285,814		285,814
Due from Other Funds	31,696			31,696
Prepaid Expenses	6,464			6,464
Accrued Interest				
TOTAL ASSETS	\$ 6,215,150	\$ 2,622,083	\$ 1,287,288	\$ 10,124,520
LIABILITIES:				
Accounts Payable	\$ 67,879	\$ 290,711	\$ 25,097	\$ 383,686
Due to Other Funds			31,696	31,696
Pension Contribution Payable				
Accrued Payroll & Related Liabilities	298,148			298,148
TOTAL LIABILITIES	366,027	290,711	56,792	713,530
FUND BALANCES:				
Restricted Fund Balance			847,015	847,015
Committed Fund Balance		2,331,372	383,481	2,714,853
Assigned Fund Balance	675,294			675,294
Unassigned Fund Balance	5,173,828			5,173,828
TOTAL FUND BALANCES	5,849,122	2,331,372	1,230,496	9,410,990
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,215,150	\$ 2,622,083	\$ 1,287,288	\$ 10,124,520

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014

Total Governmental Fund Balances	\$ 9,410,990
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 current financial resources, but they are reported in the statement of Net Position	13,093,210
Certain liabilities are not reported in the fund statements because they are not due and payable, but these liabilities are included in the statement of net position	
Long-term debt	(2,045,780)
Incurred but Not Reported Health Claims	(113,661)
Compensated absences liability	(639,946)
Net Pension Obligation	(532,035)
Long-term litigation settlement	(741,474)
Net Position of Governmental Activities	\$ 18,431,304

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	<u>GENERAL</u>	<u>CAPITAL EQUIPMENT</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:				
Taxes	\$ 11,228,756	\$ 898,976	\$ 116,304	\$ 12,244,037
Licenses & Permits	1,059,470	0	0	1,059,470
Charges for Services	1,347,587	0	0	1,347,587
Fines	1,390	0	0	1,390
Intergovernmental	1,369,867	88,619	636,926	2,095,412
Investment Income	22,185	13,436	7,603	43,223
Other	57,028	22,888	69,437	149,353
TOTAL REVENUES	<u>15,086,284</u>	<u>1,023,918</u>	<u>830,269</u>	<u>16,940,471</u>
EXPENDITURES:				
City Commission	340,968	0	0	340,968
City Attorney	51,177	0	0	51,177
City Manager	465,015	657	0	465,672
Finance Department	370,959	1,706	0	372,666
Planning Department	330,820	200	1,780	332,800
Main Street Department	58,850	0	31,928	90,779
Engineering	87,557	200	0	87,757
Conservancy	24,284	115	0	24,399
Administration	724,738	569	0	725,307
Central Communications	779,074	(0)	0	779,074
Police Department	3,538,838	1,516	138,171	3,678,526
Fire Department	3,556,025	12,002	10,350	3,578,376
EMS Division	2,165,232	3,299	0	2,168,531
Public Works	986,200	58	380,366	1,366,625
Intergovernmental	673,113	0	148,642	821,755
Capital	7,965	621,744	59,004	688,713
Debt service principal	0	254,086	0	254,086
Debt service interest	0	85,664	0	85,664
TOTAL EXPENDITURES	<u>14,160,815</u>	<u>981,815</u>	<u>770,241</u>	<u>15,912,872</u>
Excess (Deficit) of Revenues over Expenditures	<u>925,468</u>	<u>42,103</u>	<u>60,028</u>	<u>1,027,599</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term borrowing	0	265,589	0	265,589
Infrastructure contributions	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	<u>0</u>	<u>265,589</u>	<u>0</u>	<u>265,589</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	925,468	307,692	60,028	1,293,188
Fund Balance June 30, 2013	<u>4,923,654</u>	<u>2,023,680</u>	<u>1,170,468</u>	<u>8,117,802</u>
Fund Balance June 30, 2014	<u>\$ 5,849,122</u>	<u>\$ 2,331,372</u>	<u>\$ 1,230,496</u>	<u>\$ 9,410,990</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$	1,293,188
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives.		688,713
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services.		(1,257,875)
Proceeds of lease proceeds are reported as sources of funds in the fund statements and increases in long-term debt in the governmentwide statements		(265,589)
Gain/loss on sale of fixed assets is reported in the statement of activities to recognize the disposal of fixed assets		(8,467)
Developer contributions of roads and infrastructure are reported in the statement of activities		
Accrued litigation settlement was recognized in governmentwide statements in previous year and adjusted in the current year as a result of revised estimates		
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.		(53,636)
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.		(4,050)
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.		(33,288)
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.		254,086
		<hr/>
Change in Net Position of Governmental Activities	\$	<u>613,082</u>

CITY OF WINCHESTER, KENTUCKY
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL (BUDGETARY BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2014

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 10,183,000	\$ 10,183,000	\$ 11,228,756	\$ 1,045,756
Licenses & Permits	950,000	950,000	1,059,470	109,470
Charges for Services	2,131,000	2,131,000	1,347,587	(783,413)
Fines	0	0	1,390	1,390
Intergovernmental	1,629,000	1,629,000	1,369,867	(259,133)
Investment Income	0	0	22,185	22,185
Other	0	0	57,028	57,028
TOTAL REVENUES	14,893,000	14,893,000	15,086,284	193,284
EXPENDITURES:				
General Government	2,630,350	2,643,600	2,462,333	181,267
Central Communications	863,800	863,800	779,074	84,726
Police Department	3,725,200	3,746,200	3,538,838	207,362
Fire Department	3,940,000	3,958,000	3,556,025	401,975
EMS Division	2,358,700	2,358,700	2,165,232	193,468
Public Works	1,698,300	1,698,300	986,200	712,100
Intergovernmental	670,300	674,700	673,113	1,587
Capital	0	0	0	0
Debt service principal	0	0	0	0
Debt service interest	0	0	0	0
TOTAL EXPENDITURES	15,886,650	15,943,300	14,160,815	1,782,485
Excess (Deficit) of Revenues over Expenditures	(993,650)	(1,050,300)	925,468	1,975,768
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	0	0	0	0
Infrastructure contributions	0	0	0	0
Operating transfers in	400,000	400,000	0	400,000
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	400,000	400,000	0	400,000
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(593,650)	(650,300)	925,468	2,375,768
Fund Balance June 30, 2013	3,663,000	3,663,000	4,923,654	1,260,654
Fund Balance June 30, 2014	\$ 3,069,350	\$ 3,012,700	\$ 5,849,122	\$ 3,636,422

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL (BUDGETARY BASIS) GENERAL
AND MAJOR SPECIAL REVENUE FUNDS (CONTINUED)
For the Year Ended June 30, 2014

	SPECIAL REVENUE FUND (CAPITAL EQUIPMENT FUND)			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 860,000	\$ 860,000	\$ 898,976	\$ 38,976
Licenses & Permits	0	0	0	0
Charges for Services	0	0	0	0
Fines	0	0	0	0
Intergovernmental	94,100	94,100	88,619	(5,481)
Investment Income	0	0	13,436	13,436
Other	22,000	372,000	22,888	(349,112)
TOTAL REVENUES	<u>976,100</u>	<u>1,326,100</u>	<u>1,023,918</u>	<u>(302,182)</u>
EXPENDITURES:				
General Government	315,771	315,771	71,772	243,999
Central Communications	6,700	32,700	5,253	27,447
Police Department	114,500	141,500	131,278	10,222
Fire Department	125,328	134,328	56,701	77,627
EMS Division	18,301	357,301	286,509	70,792
Public Works	105,600	104,600	90,553	14,047
Intergovernmental	0	0	0	0
Capital	0	0	0	0
Debt service principal	254,100	254,100	254,086	14
Debt service interest	85,700	85,700	85,664	36
TOTAL EXPENDITURES	<u>1,026,000</u>	<u>1,426,000</u>	<u>981,815</u>	<u>444,185</u>
Excess (Deficit) of Revenues over Expenditures	<u>(49,900)</u>	<u>(99,900)</u>	<u>42,103</u>	<u>142,003</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	0	0	265,589	265,589
Infrastructure contributions	0	0	0	0
Operating transfers in	(400,000)	(400,000)	0	400,000
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	<u>(400,000)</u>	<u>(400,000)</u>	<u>265,589</u>	<u>665,589</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(449,900)</u>	<u>(499,900)</u>	<u>307,692</u>	<u>807,592</u>
Fund Balance June 30, 2013	<u>1,955,800</u>	<u>1,955,800</u>	<u>2,023,680</u>	<u>67,880</u>
Fund Balance June 30, 2014	<u>\$ 1,505,900</u>	<u>\$ 1,455,900</u>	<u>\$ 2,331,372</u>	<u>\$ 875,472</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION—PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2014

	ENTERPRISE FUND
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 8,701,555
Restricted Cash and Cash Equivalents	358,537
Restricted Investments	4,437,759
Accrued Interest, Restricted	200
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$47,372	1,932,060
SDC Assessments Receivable	933,500
Other Accounts Receivable	147,974
Materials and Supplies	323,550
Prepaid Expenses	539,827
Total Current Assets	17,374,962
Restricted Assets	
Cash and Cash Equivalents	7,946,389
Total Restricted Assets	7,946,389
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	107,828,287
Land	1,519,050
Construction in Progress	1,808,523
Total Property, Plant and Equipment	111,155,860
TOTAL ASSETS	\$ 136,477,211
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 796,906
Other Accrued Liabilities	248,874
Total Current Liabilities	1,045,780
Current Liabilities Payable from Restricted Assets	
Customer Deposits	148,951
Accrued interest Payable	103,667
Current Portion of Long-Term Debt	3,234,152
Total Current Liabilities from Restricted Assets	3,486,770
Long-Term Debt, Less Current Portion	
Long-Term Debt, Less Current Portion	63,212,031
Compensated Absences	463,821
Total Long-Term Debt, Less Current Portion	63,675,852
TOTAL LIABILITIES	68,208,402
NET POSITION:	
Invested in Capital Assets, Net of Related Debt	44,606,010
Restricted for Capital Projects (Expendable)	11,582,804
Restricted for Bond Debt Service (Expendable)	999,287
Unrestricted	11,080,708
TOTAL NET POSITION	68,268,809
TOTAL LIABILITIES AND NET POSITION	\$ 136,477,211

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2014

	ENTERPRISE FUND
OPERATING REVENUES:	
Water	\$ 5,210,563
Wastewater	7,602,719
Solid Waste	3,545,844
Transfer Station	35,590
TOTAL OPERATING REVENUES	16,394,716
OPERATING EXPENSES:	
Administrative	2,103,908
Solid Waste	1,788,404
Water	3,247,634
Wastewater	5,437,282
Vehicle Maintenance	142,930
TOTAL OPERATING EXPENSES	12,720,158
Operating Income (Loss)	3,674,558
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	90,580
Interest Expense	(1,492,300)
Other Income	191,641
Investment Income (Loss)	(2,223)
Gain on Sale of Capital Assets	46,604
Amortization Expense of Bond Discount	(10,176)
Grant Income	145,811
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,030,063)
Net Income (Loss) before Capital Grants & Contributions	2,644,495
Capital Grants and Contributions	611,460
Change in Net Position	3,255,955
Net Position, Beginning of Year	65,172,584
Cummulative Effect of change in Accounting Principle	(159,730)
Net Position, Beginning of Year, Restated	65,012,854
Net Positon, End of Year	\$ 68,268,809

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CASH FLOWS—PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2014

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 16,181,639
Payments to Suppliers	(5,502,936)
Payments to Employees	(2,767,518)
Other Receipts (Payments)	<u>(137,246)</u>
 Net Cash Provided (Used) by Operating Activities	 <u>7,773,939</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	36,604
Proceeds from Long-Term Debt	1,059,091
Principal Payments	(3,177,800)
Interest Payments	(1,496,147)
Purchase of Property, Plant and Equipment	(4,665,643)
Proceeds from Federal and State Grants - Capital Items	145,811
Contributed Capital Received	611,460
Cash from Other Income	<u>191,641</u>
 Net Cash Provided (Used) by Capital and Related Financing Activities	 <u>(7,294,983)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	289,885
Cash from Interest	<u>90,580</u>
 Net Cash Provided (Used) by Investing Activities	 <u>380,465</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 859,421
 Cash and Cash Equivalents, Beginning of Year	 <u>16,147,059</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 17,006,480</u>
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and Cash Equivalents - Unrestricted	8,701,555
Cash and Cash Equivalents - Restricted	358,536
Investments - Restricted	<u>7,946,389</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 17,006,480</u>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2014**

Reconciliation of Operating Income (Loss) to Net Cash Provided	
by Operating Activities:	
Operating Income (Loss)	\$ 3,674,558
Adjustments to Reconcile Net Income (Loss) to Net	
Cash from Operating Activities:	
Depreciation/Amortization	3,809,825
Changes in Assets and Liabilities:	
Accounts Receivable, Customers	(213,544)
SDC Assessments Receivable	7,009
Other Accounts Receivable	(137,478)
Other Receivable	228
Material and Supplies	28,115
Prepaid Expenses	180,502
Accounts Payable	426,896
Accounts Payable - Construction	(25,275)
Accounts Payable - Retainage	
Accrued Liabilities	(39,103)
Accrued Payroll and Vacation	68,745
Customer Deposits	<u>(6,539)</u>
Net Cash Provided by Operating Activities	<u>\$ 7,773,939</u>

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION—FIDUCIARY FUND
June 30, 2014

	PENSION TRUST	AGENCY FUND
ASSETS		
Cash and Cash Equivalents	\$ 100,527	\$ 1,441
Investments	1,363,652	
Pension contribution receivable	2,120	
Accrued Investment Income	8,278	
TOTAL ASSETS	\$ 1,474,577	\$ 1,441
LIABILITIES		
Accounts Payable		
Due to General Fund	\$ 1,649	
Due to Member Agencies		\$ 1,441
TOTAL LIABILITIES	\$ 1,649	\$ 1,441
FIDUCIARY NET POSITION	\$ 1,472,928	

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUND
For the Year Ended June 30, 2014

	<u>PENSION TRUST</u>	<u>AGENCY FUND</u>
ADDITIONS:		
Contributions	\$ 14,370	\$ 26,245
Investment Income:		
Interest	33,472	60
Net Appreciation (Depreciation) in Fair Value of Investments	7,083	
(Gain) Loss on Sale of Investments	(19,044)	
Less: Investment Expense	<u>(5,689)</u>	
Net Investment Income	<u>15,822</u>	<u>60</u>
Total Additions	30,192	26,305
DEDUCTIONS:		
Benefits	111,358	
Program Expenses		26,305
HRA Benefits	9,370	
Taxes	<u>3,830</u>	
Total Deductions	124,558	26,305
Change in Net Position	(94,366)	
Net Position June 30, 2013	<u>1,567,294</u>	
Net Position June 30, 2014	<u>\$ 1,472,928</u>	<u>\$</u>

See Auditor's Report and Accompanying Notes

NOTES TO THE FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

THE FINANCIAL REPORTING ENTITY

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

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

1. INCLUDED WITHIN THE ENTITY - Winchester Municipal Utilities Commission (WMU) - The City has the following oversight responsibilities: Appointment and removal of Board members, approval of utility rates, approval of issuance and sale of bonds, and the sale or purchase of land. The basic financial statements have been included in the City's reporting entity as the component unit.
2. EXCLUDED FROM THE ENTITY:
 - (a) The following joint city/county entities are not included in the City's reporting entity because of shared oversight responsibilities: Winchester/Clark County Planning and Zoning Commission, Winchester/Clark County Parks and Recreation Board, Clark County/Winchester Heritage Commission, Winchester/Clark County Recreational, Tourist and Convention Commission, Winchester/Clark County Industrial Development Authority, Winchester/Clark County Board of Adjustment, Winchester Historic Presentation Commission, Winchester/Clark County Appeals Board and the Municipal Cemetery Board.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) Housing Authority of Winchester and Urban Renewal and Community Development Agency - The appointment of the Governing Boards and the scope of public service are not considered an adequate demonstration of oversight and control. The City has no responsibility for the budgets, debts or financing deficits for either the Housing Authority of Winchester or Urban Renewal and Community Development Agency.

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

Component Unit – WMU

Winchester Municipal Utilities (WMU) is a 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.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. It also supersedes Governmental Accounting Standards Board (GASB) Statement No. 20, thereby eliminating the election provided in paragraph 7 of that Statement.

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. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

Fund Accounting

The City maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds is as follows:

A. Governmental Fund Types

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

The special revenue funds account for proceeds of specific revenue sources (other than special assessments, or major capital projects) that are legally restricted to expenditures for specified purposes. The City's special revenue funds include funds for tax resources that are restricted to specific purposes as well as the sources and uses of federal, state, and local intergovernmental programs and grants.

B. Proprietary Funds (Enterprise Fund)

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

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Measurement Focus and Basis of Accounting

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

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

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

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

BASIS OF ACCOUNTING

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

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

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

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

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

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

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

BUDGETARY PROCESS

The City Commission annually adopts the Budget Ordinance for General Fund, Capital Equipment Fund, Municipal Road Aid Fund, LGEA Fund and Pass Thru 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 considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purposes of the Statement of Cash Flows, WMU considers all short-term highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All investments are stated at fair value. Investment fair values are based on quoted market prices. All investments are restricted as to use.

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, 2014 and 2013, \$72,914 and \$79,524 were written off as uncollectible, respectively.

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

INVENTORIES AND PREPAIDS

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

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

RESTRICTED ASSETS—COMPONENT UNIT (WMU)

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

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.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. 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 fair market value at the date of donation. WMU's capitalization policy is \$500.

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

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

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

ESTIMATES

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

COMPENSATED ABSENCES

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (continued)

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, 2014 and 2013 was \$10,176 and \$19,187, respectively.

INTEREST-COMPONENT UNIT (WMU)

Interest is charged to expense as incurred except, WMU follows the policy of capitalizing interest as a component of construction in progress. For the years ended June 30, 2014 and 2013, total interest incurred was \$1,492,300 and \$1,449,319, respectively, of which \$0 and \$644,750 was capitalized and \$1,492,300 and \$804,569 was expensed, respectively.

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 debt consists primarily of notes payable, accrued compensated absences, retirement benefits and capital lease obligations.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The 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.

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.

EQUITY CLASSIFICATIONS

Government-wide Statements - Equity is classified as net position and 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.
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.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Unrestricted net position—All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 these balances are reported in the government-wide statements.

Net Position—Component Unit (WMU)

Net position represents the difference between assets and liabilities. Invested in capital assets, net of related debt; 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. 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 invested in capital assets, net of related debt. 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 “invested in capital assets, net of related debt”, are considered unrestricted.

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for 2013 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 15, 2013 and were due December 6, 2013. Taxes unpaid after December 6, 2013 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. Based on collection histories, the City has provided at June 30, 2014, an allowance for uncollectible property taxes of 100% of delinquent accounts.

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

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

NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)

WMU accepts utility installations built by contractors upon inspection. The utility installations are added to fixed assets and contributed capital at contractor’s cost.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 — COMPONENT UNIT (WMU)

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

Clark County Geographic Information System Consortium (CCGIS), is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. WMU contributed \$80,249 and \$76,958 for the years ended 2014 and 2013, respectively. CCGIS had accounts payables to WMU of \$80,598.78 and \$0 for the years ended 2014 and 2013, for reimbursements of payroll and other expenses. CCGIS had accounts receivable from WMU of \$0 and \$0 for the years ended 2014 and 2013, respectively, for excess reimbursements of payroll and other expenses. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

IMPLEMENTATION OF GASB STANDARDS

The City of Winchester implemented new guidance from the Governmental Accounting Standards Board (GASB Statement No. 67, *Financial Reporting for Pension Plans*) during the year ended June 30, 2014 for the Police and Firefighters defined benefit pension trust fund.

Both the City and WMU will be implementing the GASB pension guidance for employers, Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year ended June 30, 2015. Both entities will be recognizing the employer's proportionate share of the collective CERS net pension liabilities (see Note 13). However, the CERS actuaries have not yet completed the calculations for employer proportionate shares. As a result, neither the City nor WMU can determine the impact of implementing GASB Statement No. 68 related to that plan.

The City's net pension liability for the Police and Firefighters Pension Fund as of June 30, 2014 is \$656,444 (GASB Statement No. 68) compared to the net pension obligation of \$532,035 (GASB Statement No. 27) reported in the City's Statement of Net Position on page 39.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

WMU implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which was effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

The adoption of GASB Statement No. 65 required debt issuance costs that were previously reported as assets to be shown as an expense. The effects of this statement were applied retroactively by reporting the cumulative effect of the application as a restatement of beginning net position. The change resulted in the restatements of beginning net position of \$159,730.

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, 2014, 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. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require investments to be reported at fair value.

<u>Investments</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Mutual Fund	\$ 24,242	\$ 24,242
U.S. Government Securities	1,339,410	1,268,601
Total Investments	<u>\$1,363,652</u>	<u>\$1,292,843</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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2014, the City's investments in money market mutual funds were unrated.

3. WINCHESTER MUNICIPAL UTILITIES INVESTMENTS - Investments are carried at cost. The majority of the investments are restricted as to use.

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, 2014, WMU is in compliance with this requirement.

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:

06/30/14	Type	Fair Value	Maturities (in Years)			
			< Than 1	1 - 5	6 - 10	> 10
	Cash and Cash Equivalents	\$ 17,006,481	\$ 17,006,481	\$ 0	\$ 0	\$ 0
	U.S. Treasury Obligations	4,437,759	4,437,759	0	0	0
	Total	\$ 21,444,240	\$ 21,444,240	\$ 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.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

06/30/14 Type	Fair Value	Ratings			
		AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 17,006,481	\$ 0	\$ 0	\$ 0	\$ 17,006,481
U.S. Treasury Obligations	4,437,759	4,437,759	0	0	0
Total	\$ 21,444,240	\$ 4,437,759	\$ 0	\$ 0	\$ 17,006,481

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, 2014 and 2013 all deposits and investments were either fully collateralized by federal depository insurance or by the pledging institution in WMU's name or were held in a bank's trust department in the City of Winchester's name, the primary government of the component unit, WMU.

NOTE 3 – WMU RESTRICTED ASSETS

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – WMU RESTRICTED ASSETS (CONTINUED)

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, 2014, follows:

06/30/14	Cash	Investments	Accrued Interest	Total
Restricted by Ordinance:				
Bond Redemption Account	\$ 358,537	0	0	358,537
Reserve Accounts	532,063	0	0	532,063
Depreciation Account	2,517,779	0	0	2,517,779
Subtotal	<u>3,408,379</u>	<u>0</u>	<u>0</u>	<u>3,408,379</u>
Other Restricted Accounts:				
SDC Water Fund	2,694,649	0	0	2,694,649
SDC Wastewater Fund	88,561	0	0	88,561
Customer Deposits	160,593	0	0	160,593
KIA Reserve	108,688	0	0	108,688
Water Improvements	1,366,205	0	0	1,366,205
2011 Bond Funds	0	4,437,759	196	4,437,955
Capital Accum-Water	324,025	0	0	324,025
Capital Accum-Wastewater	153,824	0	0	153,824
Total	<u>\$ 8,304,925</u>	<u>4,437,759</u>	<u>196</u>	<u>12,742,879</u>

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	\$ 344,880	\$ 89,639	\$ 0	\$ 434,519
Land	1,986,538	7,965	0	1,994,503
Total Non-depreciable capital assets	<u>2,331,418</u>	<u>97,604</u>	<u>0</u>	<u>2,429,022</u>
Depreciable capital assets:				
Buildings	5,494,816	0	(20,503)	5,474,313
Vehicles	5,404,399	178,325	0	5,582,724
Computers	399,692	4,440	0	404,132
Equipment	3,700,621	408,345	(51,084)	4,057,882
Infrastructure	22,188,048	0	0	22,188,048
Total depreciable capital assets	<u>37,187,576</u>	<u>591,110</u>	<u>(71,587)</u>	<u>37,707,099</u>
Less accumulated depreciation				
Buildings	(2,218,176)	(215,029)	12,036	(2,421,169)
Vehicles	(3,975,156)	(431,865)	0	(4,407,021)
Computers	(306,926)	(23,197)	0	(330,123)
Equipment	(3,014,098)	(264,941)	51,084	(3,227,955)
Infrastructure	(16,333,800)	(322,843)	0	(16,656,643)
Total accumulated depreciation	<u>(25,848,156)</u>	<u>(1,257,875)</u>	<u>63,120</u>	<u>(27,042,911)</u>
Total depreciable capital assets, net	<u>11,339,420</u>	<u>(666,766)</u>	<u>(8,467)</u>	<u>10,664,188</u>
Governmental activities capital assets, net	<u>\$ 13,670,838</u>	<u>\$ (569,162)</u>	<u>\$ (8,467)</u>	<u>\$ 13,093,210</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	\$ 612,217
Public Protection	
Police	129,734
Fire Protection	290,906
EMS	119,073
Public Works	105,945
	\$ 1,257,875

WMU's systems consist of the following:

06/30/14	Beginning	Additions	Disposals	Ending
Non-depreciable Assets:				
Land	\$ 1,051,011	\$ 468,039	\$ 0	\$ 1,519,050
Construction in Progress	43,084,130	792,713	(42,068,320)	1,808,523
Total Non-depreciable Assets	\$ 44,135,141	\$ 1,260,752	\$ (42,068,320)	\$ 3,327,573
Depreciable Assets:				
Administrative	\$ 3,260,817	\$ 287,032	\$ (197,139)	\$ 3,350,710
Water System	40,528,415	5,144,780	(1,415,855)	44,257,340
Wastewater System	68,657,286	44,289,657	(3,514,597)	109,432,345
Solid Waste	6,288,634	1,042,882	(612,604)	6,718,911
Vehicle Maintenance	443,268	19,613	(2,288)	460,592
Equipment Capital Lease	82,927	0	(1,648)	81,279
Subtotal	119,261,347	50,783,964	(5,744,131)	164,301,180
Accumulated Depreciation:				
Administrative	(1,503,790)	(175,518)	2,295	(1,677,013)
Water System	(11,399,445)	(995,484)	74,005	(12,320,924)
Wastewater System	(19,091,305)	(2,315,237)	124,957	(21,281,586)
Solid Waste	(1,558,772)	(316,641)	244,595	(1,630,818)
Vehicle Maintenance	(324,851)	(6,945)	0	(331,796)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
Subtotal	(53,108,919)	(3,809,825)	445,852	(56,472,893)
Total Net Property, Plant and Equipment	\$ 66,152,427	\$ 46,974,139	\$ (5,298,279)	\$ 107,828,287

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expense in total and by function follows:

<u>Function</u>	<u>2014</u>	<u>2013</u>
Administrative	\$ 175,518	\$ 167,189
Water System	995,484	931,153
Wastewater System	2,315,237	1,983,188
Solid Waste	316,640	281,432
Vehicle Maintenance	6,945	23,797
Total Depreciation Expense	<u>\$ 3,809,825</u>	<u>\$ 3,386,759</u>

NOTE 5 — INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables during the year ending June 30, 2014 were as follows.

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$31,696	
Capital Equipment Fund		
Special Revenue Funds		
Local Grant Funds		
State Grant Funds		
Federal Grant Funds		31,696
Total	<u>\$31,696</u>	<u>\$31,696</u>

NOTE 6 — OPERATING LEASES

The City had operating leases for the following equipment at June 30, 2014. Terms of the operating leases are as follows:

<u>Description</u>	<u>Date</u>	<u>Monthly Payment</u>	<u>Months</u>	<u>Location</u>
IM440WP5 Copier	3/6/2013	\$254	59	City Hall
MP5002SP Copier	10/30/2012	227	48	Fire
MP4002SP Copier	10/30/2012	227	48	Fire-EMS
MPC5502 Copier	10/22/2012	316	48	City Hall
Toshiba Copier	8/1/2011	74	48	Police
MPC3502 Ricoh copier	6/19/2013	159	60	Planning
MP301SPF Ricoh copier	4/10/2014	52	48	City Manager
MP301SPF Ricoh copier	4/10/2014	52	48	Finance
MP301SPF Ricoh copier	5/23/2014	52	48	Fire Sta #2
MPC3503SP Ricoh copier	6/18/2014	167	60	Police

Rental expense for the current fiscal year was \$15,672. The future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$18,969
2016	18,155
2017	11,921
2018	29,466
2019	2,000
Total	<u>\$80,513</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 — CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2014 consists of the following:

	Balance June 30 <u>2013</u>	Additions	Deletions	Balance June 30, <u>2014</u>
7th Street	\$197,830	\$ 0	\$ 0	\$197,830
Fulton Road	147,050	15,765	0	162,815
CDBG Disaster Recovery		43,239	0	43,239
Maple/Boone Sanitary Sewer	<u>0</u>	<u>30,635</u>	<u>0</u>	<u>30,635</u>
	<u>\$344,880</u>	<u>\$89,639</u>	<u>\$ 0</u>	<u>\$434,519</u>

NOTE 8 - LONG-TERM DEBT

CHANGES IN LONG-TERM DEBT

Governmental long-term liability activity was as follows:

Describe	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital Leases	\$ 2,034,277	\$ 265,585	\$ 254,086	\$ 2,045,777	\$ 374,611
Sick Leave	606,658		(33,288)	639,946	
Total Governmental	<u>\$ 2,640,935</u>	<u>\$ 265,585</u>	<u>\$ 220,797</u>	<u>\$ 2,685,723</u>	<u>\$ 374,611</u>

CAPITAL LEASES

The City has five capital leases at of June 30, 2014. The liability for the lease obligations have been recorded in the government-wide financial statements. Details of the leases are presented below.

<u>Purpose</u>	<u>Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payment</u>
Cardiac Monitors	6/13/2014	1.44%	4 years	\$ 68,201
Horton Ambulance (EMS)	2/26/2013	1.77%	4 years	\$ 42,697
Horton Ambulance	06/03/10	3.29%	5 years	\$ 201,942
Pierce Pumper Fire Truck	11/19/09	3.94%	7 years	\$ 74,030
Winchester Community Center	05/21/10	3.48%	20 years	\$ 152,277

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

CAPITAL LEASES (CONTINUED)

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. Capital leasing commitments to maturity for the year ending June 30, 2014:

	2015		361,732
▶	2016		330,315
▶	2017	▶	272,958
▶	2018	▶	214,314
▶	2019	▶	139,982
	Thereafter	▶	1,336,390
	Total Minimum Lease Payments		2,655,691
	Less interest payments	▶	609,915
	Present Value of Minimum Lease Payments		\$ 2,045,776

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, 2014 and 2013, are summarized as follows:

Description	Rate	Maturity	Original Issue	2014 Total	2013 Total
2011 Issue	5.27%	01/01/31	9,010,000	\$ 8,018,333	\$ 8,352,500
2012 Issue	2.00-3.75%	07/01/32	7,495,000	6,825,000	7,115,000
Less: Unamortized Discount				(175,901)	(186,077)
Total Bonds				14,667,432	15,281,423
KIA Loan	1.00%	12/01/28 Estimate	21,000,000	15,639,554	16,637,036
KIA-Lower Howards Creek	2.00%	01/01/31 Estimate	36,600,000	35,095,163	35,600,004
KIA-Bel-Air	2.00%	01/01/31	1,000,000	515,146	478,140
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	290,108	304,814
KIA-Vaught Court	2.00%	06/01/31	287,400	238,689	251,233
Total KIA Loans				51,778,660	53,271,227
Less: Current Maturities				(3,234,152)	(3,175,612)
Total				\$ 63,212,031	\$ 65,377,038

The annual bond and long-term debt service requirements, as of June 30, 2014, are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 3,221,333	\$ 1,438,703	\$ 4,660,036
2016	3,286,786	1,380,452	4,667,238
2017	3,340,933	1,320,873	4,661,806
2018	3,406,937	1,260,137	4,667,074
2019	3,472,046	1,196,445	4,668,491
2020-2024	18,476,434	4,883,336	23,359,769
2025-2029	20,067,328	2,786,645	22,853,973
2030-2033	11,192,801	580,740	11,773,542
	\$ 64,464,599	\$ 14,847,332	\$ 81,311,931

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

The above schedule includes estimated future payments towards the KIA-Lower Howards Creek and KIA-Bel Air financing. At year end, the related projects were not completed, but are expected to be completed in the subsequent period, and KIA has provided WMU with estimated payment amounts.

Series 2002 Bonds

On March 1, 2002, the City issued \$9,025,000 of utilities revenue bonds for WMU 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 4.5% to 5.125% and mature on July 1, 2032. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1. The bonds were paid in full during the 2011-2012 fiscal year by a refunding, Series 2012 Bonds issuance (See Refunding, Series 2012 Bonds below).

Series 2011 Bonds

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

Refunding, Series 2012 Bonds

On April 19, 2012, the City issued \$7,495,000 of utilities refunding revenue bonds for WMU to pay off the Series 2002 Bonds (See Series 2002 Bonds above). The bonds were secured by a first pledge of a fixed portion of the gross revenues to be derived from the operation of the system, which fixed portion shall be sufficient to pay the principal and interest of the bonds. The 2002 bond issue financed the acquisition, construction and installation of major new municipal sanitary sewer (wastewater) facilities and paying and discharging the outstanding Utilities Revenue Bond Anticipation Note, Series 1997. The bonds carry interest rates of 2.0% to 3.75% and mature on July 1, 2021. The interest payments are to be made on July 1 and January 1 and the principal payments are to be made on July 1.

KIA 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. The amount of interest due will vary from due date to due date based upon the amount of funds drawn down to fund construction of the wastewater treatment plant. 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, with principal payments due to begin on June 1, 2009, and be due every December 1 and June 1 thereafter until maturity on December 1, 2028.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

KIA – Vaught Court Loan

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

KIA – Lower Howards Creek

On February 5, 2010, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the Lower Howards Creek Wastewater project, \$36,600,000. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation, which was on February 12, 2013. During the current year, the final draw of \$999,996 of the loan was drawn down. the loan will carry a 2.00% interest rate and mature in twenty years. The loan is required to establish a replacement reserve account where \$91,500 is to be added to the account each December 1 until the balance reaches \$915,000 and is to be maintained for the life of the loan.

KIA – Industrial Elevated Storage Tank

On December 1, 2009, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for construction of an Elevated Storage Tank Rehabilitation, \$741,450 with a principal forgiveness of \$401,124 and a loan amount of \$340,326. This agreement calls for interest payments to commence within six months from the first draw of funds estimated to be June 1, 2010 with full principal and interest payments to commence within one year of initiation of operation estimated to be June 1, 2011. During the year ended June 30, 2010, \$401,124 of principal was forgiven. During the year ended June 30, 2011, \$340,326 was drawn down, and the project was completed. 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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

within one year of initiation of operation estimated to be December 1, 2013. During the prior year, \$478,140 of the loan was drawn down. In the current year, the final draw of \$59,095 was drawn on the loan. The loan will carry a 2.00% interest rate and mature in twenty years. The loan is required to establish a replacement reserve account where \$2,500 is to be added to the account each December 1 until the balance reaches \$25,000 and is to be maintained for the life of the loan.

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

Changes in Long-Term Debt - WMU

Long-Term Debt consists of bonds and other indebtedness for which the changes in the years ended June 30, 2014 are as follows:

<u>Description</u>	<u>Beginning</u>	<u>Borrowings Additions</u>	<u>Repayments Reductions</u>	<u>2014 Ending</u>	<u>Current</u>
Compensated Absences	\$ 395,076	\$ 68,745	\$ -	\$ 463,821	\$ 0
Bonds	15,281,423	5,176	619,167	14,667,432	628,651
KIA Loan	16,637,037	-	997,483	15,639,554	1,007,483
Capital Lease	6,974	-	6,974.00	0.00	0
KIA-Lower Howards	35,600,004	999,996	1,504,837	35,095,163	1,534,891
KIA-Bel-Air	478,140	59,095	22,089	515,146	22,533
KIA-Storage Tank	304,815	-	14,707	290,108	15,002
KIA-Vaught Court	251,233	0	12,544	238,689	12,796
Total Long-Term Debt	<u>\$ 68,954,700</u>	<u>\$ 1,133,012</u>	<u>\$ 3,177,801</u>	<u>\$ 66,909,913</u>	<u>\$ 3,234,152</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, 2014 and 2013, and required a balance of \$507,944.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

Depreciation Reserve – Bonds and KIA Loan

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

Interest Coverage Ratio – Bonds and KIA Loan

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

Bonds:	<u>2014</u>	<u>2013</u>
Income Available for Debt Service	\$ 4,146,967	\$ 4,178,586
Add: Depreciation	3,809,825	3,386,759
Cash Available for Bond Debt Service	<u>\$ 7,956,792</u>	<u>\$ 7,565,345</u>
Annual Debt Service on Bonds	<u>1,205,004</u>	<u>1,210,429</u>
Coverage Ratio	<u>6.60</u>	<u>6.25</u>
KIA:	<u>2014</u>	<u>2013</u>
Income Available for Debt Service	\$ 4,146,967	\$ 4,178,586
Add: Depreciation	3,809,825	3,386,759
Cash Available for Debt Service	<u>\$ 7,956,792</u>	<u>\$ 7,565,345</u>
Annual Debt Service on all Debt	<u>4,633,676</u>	<u>2,604,128</u>
Coverage Ratio	<u>1.72</u>	<u>2.91</u>

Winchester Municipal Utilities is in compliance with all of the covenants of the bond ordinance and KIA loan agreement as of June 30, 2014.

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	\$ 42,792,000
Wastewater Utility Improvements	22,616,000
Total projected financing requirement	<u>\$ 65,408,000</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

**NOTE 10 – FIVE YEAR CAPITAL CONSTRUCTION PLAN – COMPONENT UNIT (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	\$ 8,000
Upgrade/Renew Network Virus Protection	1,600
Upgrade Local Area Network	10,000
Replace Microcomputers	8,000
Engineering Software Upgrades	2,500
Field Operation Vehicles	385,000
Solid Waste Collection:	
Cubit Replacement	30,000
Container Replacement	35,000
Replace Compactor Ejector Box	10,000
Solid Waste Recycling	200,000
Water Treatment Plant Equipment Improvements	80,000
Water System Improvements	400,000
Water Distribution:	
Main Replacement	100,000
Fire Hydrant Replacement	12,000
Gate Value Box Adjustment – New Paving	0
Gate Value Replacement	10,000
Elevated Storage Tank Rehabilitation	400,000
Meter Change-Out/AMR Equipment	125,000
New Meter Services	30,000
Wastewater Collection:	
Main Replacement Program	100,000
Manhole Grade Adjustment – New Paving	0
I&I Rehabilitation	20,000
Rehabilitation of Private Sewers	20,000
Flow Meters	15,000
Infrastructure Rehabilitation Program	0
System Capacity Assurance Program	18,000
Routine Hydraulic Cleaning	60,000
Wastewater Treatment Plant:	
Replacement of Laboratory Equipment	2,000
WWTP Equipment Improvements	35,000
Solids Processing Improvements	35,000
Total Annual Allocations for Infrastructure Investment	<u>\$ 2,152,100</u>

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

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

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2011 and 2012 bonds and KIA outstanding debt referenced in Note 5. Proceeds from these debt obligations provided financing of the water and wastewater infrastructure, including a new wastewater treatment plant. The debt obligations will be repaid from the previously mentioned utility revenues through the year 2032.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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).

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.

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

The Policemen's and Firemen's Pension Plan's actuarial valuation was performed on July 1, 2014, and the report issued by the firm of Bryan, Pendleton, Swats & McAllister, LLC. A copy of the report may be obtained from the City of Winchester Policemen's and Firemen's Pension Board.

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

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to the Police and Firemen's Pension Fund for the following years were:

	<u>6/30/2014</u>	<u>6/30/2013</u>	<u>6/30/2012</u>
Annual required contribution	\$ 145,214	\$ 122,559	\$ 105,609
Interest on net pension obligation	23,920	22,029	20,754
Adjustment to annual required contribution	(110,498)	(101,761)	(95,873)
Annual Pension Cost	<u>58,636</u>	<u>42,827</u>	<u>30,490</u>
Contributions Made	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>
Increase (decrease) in net pension obligation	<u>53,636</u>	<u>37,827</u>	<u>25,490</u>
Net pension obligation beginning of year	<u>478,399</u>	<u>440,572</u>	<u>415,082</u>
Net pension obligation end of year	<u>\$ 532,035</u>	<u>\$ 478,399</u>	<u>\$ 440,572</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 12 – PENSION PLANS (CONTINUED)

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

As of June 30, 2014, the total actuarial unfunded liability was \$532,065 if retirees are granted a 3% annual cost of living adjustment and using the GASB Statement No. 27 accounting guidance. However, as outlined earlier in Note 1 (GASB Standards Implementation), the “net pension liability”, measured using the guidance in GASB Statement No. 68 is \$656,028. The City has not yet implemented GASB Statement No. 68, so the amounts in the Required Supplementary Information differ from the amount reported as the “net pension obligation” in the Statement of Net Position and the table above as of June 30, 2014.

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. The plan does have provisions for disability and death benefits. The annual required contribution for the current year was determined as part of the July 1, 2013 actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 5% per annum assumed rate of return and (b) projected COLA increases of 3% per year. Both (a) and (b) included future cost of living increases at a maximum of 3%. The actuarial value of assets was determined at the market value as reported by PNC Bank, Kentucky, Inc. plus a checking account balance.

Actuarial analysis of the unfunded actuarial liability (for purposes of reporting the liability under GASB Statement No. 27 for the employer) amortizes the unfunded liability over an open 5 year period. As of June 30, 2014, the plan’s funded ratio, calculated based on the requirements of GASB Statement No. 27, was 66.8% (actuarial value of assets compared to actuarial accrued liability).

Membership Data.

Inactive Plan Participants-	
Retirees and beneficiaries currently receiving benefits	8
Active Plan Participants-Nonvested	0

Required supplementary information presented on pages 87 - 88 have been prepared in accordance with the provisions of GASB Statement Nos. 67 and 68. The components of the net pension liability using this guidance are:

	<u>2014</u>
Total pension liability	\$ 2,128,956
Plan fiduciary net position	<u>1,472,928</u>
Net pension liability	<u>\$ 656,028</u>

Plan Fiduciary Net Position as % of Total Pension Liability	69.2%
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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.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 – PENSION PLANS (CONTINUED)

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

Future cost-of-living adjustments were revised to a rate of 2.09% per annum based on the average adjustment made during the most recent five fiscal years for the calculation of the GASB Statement No. 68 total pension liability. 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 (\$5,000 per year). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2034. 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 5% for 20 years and 3.8% thereafter. This is equivalent to using a uniform discount rate of approximately 4.36% per annum. 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.

B - COUNTY EMPLOYEES RETIREMENT SYSTEM

Plan Description. The City of Winchester contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems. CERS was established in 1958 under Kentucky Revised Statutes 78.510 to 78.852. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries with annual cost-of-living adjustments. The retirement benefits are guaranteed by state law and cannot be reduced. By contributing to the retirement systems, the employee is assured a percentage of average salary for each year he is employed. The employee's contributions are currently tax-deferred. The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601. The valuation date is as of June 30, 2014.

Funding Policy. Plan members are required to contribute 5%, or 6% if hire date was after September 1, 2008, of their gross salary to the system; however, if they are covered under hazardous coverage, it is 8%, or 9% if hire date was after September 1, 2008. The City is required to contribute at an actuarially determined rate. For fiscal year 2014, the KRS Board of Trustees established contribution rates of 18.89% of gross pay for regular employees and 35.70% of gross pay for hazardous employees. The contribution requirements of plan members and the City of Winchester are established and may be amended by the CERS Board of Trustees. The contributions required and paid for the current fiscal year to CERS by the City was \$496,084 for employee contributions and \$1,887,485 for employer contributions totaling \$2,383,569.

Kentucky Retirement Systems Insurance Fund. Employee and employer contribution rates outlined above include an amount designated to fund health insurance benefits for retirees. The allocation of insurance premiums paid by this Fund and amounts withheld from members' benefits is based on years of service with the Systems.

The KRS Board is required by KRS 61.565(6) to establish the employer contribution rates for CERS that will phase in to the full actuarially required contribution for the health insurance fund over a ten (10) year period using the 2007 - 2008 fiscal year contribution rates as the base rates.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 – PENSION PLANS (CONTINUED)

B-COUNTY EMPLOYMENT RETIREMENT SYSTEM (CONTINUED)

Legislative Revisions in 2009. In August 2008, the Kentucky General Assembly revised the benefit provisions, employer contribution rates, and provisions for retirees returning to service with employers participating in any of the Kentucky Retirement System pension plans. These revisions were effective for employees hired after September 1, 2008. More information is available on the KRS website at <http://www.kyret.com/>.

Legislative Revisions in 2014. In April 2014, the Kentucky General Assembly revised the benefit provisions, employer contribution rates, and provisions for members with employers participating in any of the Kentucky Retirement System pension plans. These changes effectively shift the CERS plan from a defined benefit to a hybrid plan with some members in the defined benefit and others in a defined contribution plan. The hybrid defined contribution plan includes guarantees for minimum investment earnings on the members' accounts in this plan. Contribution rates for employers reflect a blended contribution that applies to all employees participating in the CERS plan. These revisions will be effective for employees hired after January 1, 2015. Kentucky Retirement Systems is developing the revised plan description documents to outline these changes. More information is available on the KRS website at <http://www.kyret.com/>.

The City will be implementing GASB Statement No. 68 during the 2015 fiscal year. The most significant element for the City's implementation of this revised pension guidance will be the recognition of the net pension liabilities, deferred inflows of resources, and deferred outflows of resources. The CERS actuary has not yet calculated the City's proportionate share of these financial statement elements, so the impact to the City's net financial position cannot be determined at this time.

C - PENSION PLAN - WMU

The Winchester Municipal Utilities Commission adopted a resolution authorizing participation in the Kentucky Retirement Systems sponsored retirement program for County Employees Retirement System (CERS) effective July 1, 1998.

Retirement benefits are provided for through legislative action of the Kentucky General Assembly and are funded by employee contributions which are deducted from employees' wages and by employer paid contributions. The General Assembly sets the employee contribution rates, currently 5% for fiscal year ending 2014 and 2013, and the Retirement Systems' Board of Trustees sets the employer contribution rates, currently 18.89% and 19.55% for fiscal year ending 2014 and 2013, respectively. Each employer is notified prior to each fiscal year of any change in the contribution rates. The Retirement System's administrative expenses are subject to approval by the Kentucky General Assembly and are paid from the State's Retirement Allowance Account.

Employer contributions for the years ended June 30, 2014, 2013, and 2012, under the current plan amounted to \$509,765, \$500,979, and \$505,126 respectively, which represent 100% of the required contributions.

In a 2011 agreement, the WMU Commission agreed to pay \$381,296 in prior service costs. This cost will be expensed equally over 19 years, based upon the average remaining service lives of all involved employees. Prior service costs expensed amounted to \$21,934 and \$21,934 for the years ended June 30, 2014 and 2013, respectively.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 12 – PENSION PLANS (CONTINUED)

C – PENSION PLAN – WMU (CONTINUED)

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, 2013 and 2012 were \$26,668 and \$44,771, respectively. WMU does not contribute to these plans.

NOTE 13 – CONTINGENCIES

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

B - LITIGATION

The City continues litigation on a suit to determine the City's responsibility for payment of firefighter's back pay. In this suit, City of Winchester, KY v. Kentucky Labor Cabinet, the City is asking the Franklin Circuit Court for a declaration of rights that the City is not responsible for these payments. The Supreme Court of Kentucky has ruled against all of the City plaintiffs who brought the suit and the City of Winchester is currently set for trial. This matter has yet to be resolved.

In regards to this suit, the City has accrued a payroll liability for the firefighter's overtime on state-provided incentive pay in the amount of \$741,474 as of June 30, 2014. It is recorded in the government-wide financial statements as part of accrued payroll and related liabilities.

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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

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.

NOTE 15 – WMU – ECONOMIC DEPENDENCY

WMU is economically dependent for water and wastewater revenues from the following four entities which account for 18% and 17%, respectively for the following years:

<u>Name</u>	<u>2014</u>	<u>2013</u>
Sekisui	\$ 861,431	\$ 744,656
Alltech	551,612	504,423
The Kroger Company	679,920	559,965
East Clark County WD	296,810	318,513
	<u>\$ 2,389,773</u>	<u>\$ 2,127,557</u>

NOTE 16 – RISK MANAGEMENT

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

CITY – SELF-INSURANCE

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

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 16 – RISK MANAGEMENT (CONTINUED)

CITY - SELF INSURANCE (CONTINUED)

sufficient to pay claims. Amounts held in the healthcare checking accounts are also reported as *assigned* fund balance in the General Fund.

<u>Fiscal Year Ended June 30</u>	<u>Claims Payable July 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Claims Payable June 30</u>
2013	98,000	983,375	971,764	109,611
2014	109,611	1,112,190	1,108,140	113,661

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 (\$12,861) and shared revenues (\$834,154) from the Commonwealth of Kentucky. Committed fund balance includes amounts set aside by the City Commission for special projects (\$383,481) and capital acquisitions (\$2,331,372). Assigned fund balance includes balances (\$675,294) held by a third-party administrator to pay future employee health care claims.

NOTE 18 – LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUNDS

The City received \$14,316 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 2014, the City spent \$28,500.

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 2014.

Winchester/Clark County Planning & Zoning	\$ 7,000
Winchester/Clark County Parks & Recreation	256,590
Clark County/Winchester Heritage Commission	12,000
Winchester/Clark County Recreation	55,000
Winchester/Clark County Industrial Development Authority	110,500
Winchester/Clark County Board of Adjustment	1,500
Clark County GIS	86,615
Total Contributions	<u>\$ 529,205</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WINCHESTER, KENTUCKY
DEFINED PENSION TRUST SCHEDULES & NOTES
For the Year Ended June 30, 2014**

1. Schedule of Changes in Net Pension Liability

	<u>2014</u>
Total Pension Liability	
Total Pension Liability - beginning of year	\$ 2,229,075
Interest cost	108,334
Differences between expected and actual experience	(18,476)
Changes in assumptions	(74,789)
Benefit payments	(115,188)
	<hr/>
Total Pension Liability - end of period	2,128,956
Plan Fiduciary Net Position	
Plan Fiduciary Net Position - beginning of period	1,567,294
Contributions - employer	14,370
Net investment income	15,822
Benefit payments & refunds	(115,188)
HRA benefits	(9,370)
	<hr/>
Plan Fiduciary Net Position - end of year	1,472,928
	<hr/>
Net Pension Liability - end of period	\$ <u>656,028</u>

2. Schedule of Net Pension Liability

	<u>2014</u>
Total pension liability	\$ 2,128,956
Plan fiduciary net position	1,472,928
Net pension liability	\$ <u><u>656,028</u></u>
Plan Fiduciary Net Position as % of Total Pension Liability	69.2%
Covered employee payroll	0
Net Pension Liability as of covered-employee payroll	N/A

**CITY OF WINCHESTER, KENTUCKY
DEFINED PENSION TRUST SCHEDULES & NOTES (continued)
For the Year Ended June 30, 2014**

3. Schedule of Employer Contributions

Fiscal Year Ending <u>June 30</u>	Annual Required <u>Contribution</u>	Amount Contributed	Percentage Contributed
2005	49,161	18,000	36.6%
2006	68,003	5,000	7.4%
2007	93,126	5,000	5.4%
2008	101,031	10,000	9.9%
2009	109,390	5,000	4.6%
2010	110,036	5,000	4.5%
2011	114,664	5,000	4.4%
2012	105,609	5,000	4.7%
2013	122,559	5,000	4.1%
2014	145,214	5,000	3.4%

4. Schedule of Annual Money-Weighted Rates of Return

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.94%

5. Notes to Required Supplementary Information

This plan was closed to new members in 1988. Only 8 retirees remain in the plan. The plan implemented GASB Statement No. 67 for the year ended June 30, 2014. Ten-year tables will be developed over the ten years ending June 30, 2023, as data becomes available.

Valuation Date	7/1/2014
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Amortization Period	2012, closed
Actuarial Asset Valuation Method	Market Value as reported by PNC Bank, Kentucky, Inc., with adjustments as reported by City Treasurer
Actuarial Assumptions:	
Investment rate of return	5%
Inflation	3%
Other	RP-2000 Mortality Table (Static)

OTHER SUPPLEMENTARY INFORMATION

CITY OF WINCHESTER, KENTUCKY
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	FEDERAL GRANT FUND	STATE ASAP FUND	STATE GRANT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:												
Cash and Cash Equivalents	\$ 798,995	\$ 36,816	\$ 20	\$ 44,385	\$ 81,988	\$ 44,836	\$ 159,202	\$ 19,549	\$ 54,257	\$ 34,400	\$ 12,841	\$ 1,233,031
Accounts Receivable	0	0	0	0	0	0	0	0	54,257	0	0	54,257
Due from Other Funds	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ASSETS	\$ 798,995	\$ 36,816	\$ 20	\$ 44,385	\$ 81,988	\$ 44,836	\$ 159,202	\$ 19,549	\$ 54,257	\$ 34,400	\$ 12,841	\$ 1,287,288
LIABILITIES:												
Accounts Payable	\$ 1,657	\$ 0	\$ 0	\$ 50	\$ 0	\$ 829	\$ 0	\$ 0	\$ 22,561	\$ 0	\$ 0	\$ 25,097
Deferred Grant Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Due to Other Funds	0	0	0	0	0	0	0	0	31,696	0	0	31,696
TOTAL LIABILITIES	1,657	0	0	50	0	829	0	0	54,257	0	0	56,792
FUND BALANCES:												
Restricted Fund Balance	797,338	36,816	20	0	0	0	0	0	0	0	12,841	847,015
Committed Fund Balance	0	0	0	44,335	81,988	44,008	159,202	19,549	0	34,400	0	383,481
TOTAL FUND BALANCES	797,338	36,816	20	44,335	81,988	44,008	159,202	19,549	0	34,400	12,841	1,230,496
TOTAL LIABILITIES AND FUND BALANCES	\$ 798,995	\$ 36,816	\$ 20	\$ 44,385	\$ 81,988	\$ 44,836	\$ 159,202	\$ 19,549	\$ 54,257	\$ 34,400	\$ 12,841	\$ 1,287,288

See Auditors' Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	FEDERAL GRANT FUND	STATE ASAP FUND	STATE GRANT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:												
Taxes	\$ 0	\$ 0	\$ 116,471	\$ (167)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 116,304
Intergovernmental	454,033	14,316	0	0	0	7,726	52,054	0	95,297	13,500	0	636,926
Investment Income	4,761	288	61	310	375	363	1,021	120	0	205	98	7,603
Other	0	0	385	7,270	42,053	8,220	0	11,169	0	340	0	69,437
TOTAL REVENUES	458,794	14,604	116,917	7,413	42,428	16,309	53,076	11,289	95,297	14,045	98	830,269
EXPENDITURES:												
City Commission	0	0	0	0	0	0	0	0	0	0	0	0
Main Street Department	0	0	0	1,250	30,678	0	0	0	0	0	0	31,928
Administration	0	0	0	0	0	0	0	0	0	0	0	0
Planning	0	0	0	1,780	0	0	0	0	0	0	0	1,780
Conservancy	0	0	0	0	0	0	0	0	0	0	0	0
Police Department	0	0	0	0	0	41,338	66,191	0	20,225	10,416	0	138,171
Fire Department	0	0	0	0	0	0	0	10,350	0	0	0	10,350
Public Works	351,866	28,500	0	0	0	0	0	0	0	0	0	380,366
Intergovernmental	0	0	116,899	0	0	0	0	0	31,743	0	0	148,642
Capital	15,675	0	0	0	0	0	0	0	43,329	0	0	59,004
TOTAL EXPENDITURES	367,541	28,500	116,899	3,030	30,678	41,338	66,191	10,350	95,297	10,416	0	770,241
Excess (Deficit) of Revenues over Expenditures	91,253	(13,896)	18	4,383	11,750	(25,030)	(13,116)	939	0	3,628	98	60,028
OTHER FINANCING SOURCES (USES):												
Operating transfers in	0	0	0	0	0	0	0	0	0	0	0	0
Operating transfers out	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	0	0	0	0	0	0	0	0	0	0	0	0
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	91,253	(13,896)	18	4,383	11,750	(25,030)	(13,116)	939	0	3,628	98	60,028
Fund Balance June 30, 2013	706,085	50,712	2	39,952	70,238	69,038	172,318	18,609	0	30,771	12,743	1,170,468
Fund Balance June 30, 2014	\$ 797,338	\$ 36,816	\$ 20	\$ 44,335	\$ 81,988	\$ 44,008	\$ 159,202	\$ 19,549	\$ 0	\$ 34,400	\$ 12,841	\$ 1,230,496

See Auditors' Report and Accompanying Notes

**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**

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

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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 City of Winchester, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Winchester, Kentucky's basic financial statements, and have issued our report thereon dated January 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Winchester, Kentucky'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 City of Winchester, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 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 9, 2015