

**CITY OF WINCHESTER**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

**CITY OF WINCHESTER, KENTUCKY  
JUNE 30, 2016**

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**CITY OF WINCHESTER, KENTUCKY**  
**JUNE 30, 2016**

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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 December 1, 2016.

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, 2016**

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**OTHER INFORMATION**

**Emergencies**

The City did not declare a state of emergency during FY2016.

**Elected Officials**

The City did not have an election during FY2016. The members of the commission are Mayor Ed Burtner, and Commissioners Rick Beach, Kenny Book, Shannon Cox, and Kitty Strode

**Retirements**

The City recognized three retirements this past year.

1. Police Officer Patrick Atkins retired after 17 years of service.
2. Fire Chief Eric Hunter retired after 30 years of service.
3. Planning Director Rhonda Cromer retired after 6 years of service

**ELECTED OFFICIALS**

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

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

## **INDEPENDENT AUDITOR'S REPORT**

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

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MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

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

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

SUSAN A. LACY, CPA  
JUSTIN B. NICHOLS, CPA

LAURENCE T. SUMMERS  
1961-1992

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners  
City of Winchester, Kentucky

**Report on the Financial Statements**

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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and capital equipment fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-30, the police and firefighter's pension fund on pages 86 and the Schedule of City's Proportionate Share of Net Pension Liability and Schedule of Contributions on pages 87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Winchester, Kentucky's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U. S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 5, 2017, 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 5, 2017

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF WINCHESTER, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016**

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

**EXECUTIVE SUMMARY**

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

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

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

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

Personnel costs include wages, taxes, retirement, and insurance. The City granted a 2% cost-of-living (COLA) for FY2015, FY2016, and FY2017. 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 based on actuarial analysis of benefits established by the Kentucky General Assembly and Ky Retirement System board decisions for the annual contribution rates. These rates are what the City pays on employee wages to the cost-sharing defined benefit pension plan (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.

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MANAGEMENT DISCUSSION AND ANALYSIS  
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Employer contribution rates for FY2017 and FY2018 have been set.

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

The total the City paid for retirement costs in FY2016 was approximately \$1.8 million. We estimate that retirement costs in FY2017 will be about \$2.2 million.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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

The remaining statements are fund financial statements that focus on the individual parts of City government. These statements report the City's operations in more detail than the government-wide statements. 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 unit) 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. The City provides administrative services for the Bluegrass Regional Cable Commission, which is reported in the agency fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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

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

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

**FINANCIAL HIGHLIGHTS**

**Statement of Net Assets**

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

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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, 2016 and 2015.

	<b>Governmental Activities</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Current and other assets	\$ 10,522,035	\$ 10,239,499
Capital assets	14,293,797	13,693,147
Total assets	<u>24,815,831</u>	<u>23,932,646</u>
 Deferred Outflows-Pensions	 3,492,951	 2,028,232
 Long-term debt outstanding	 2,021,280	 2,112,832
Net pension liabilities	18,440,596	14,074,886
Other liabilities	1,532,488	2,139,737
Total liabilities	<u>21,994,364</u>	<u>18,327,455</u>
 Deferred Inflows-Pensions	 -	 1,347,046
 Net position:		
Net investment in capital assets	12,673,149	11,259,169
Restricted	921,806	911,502
Unrestricted	(7,280,536)	(5,884,296)
Total Net Position	<u>\$ 6,314,419</u>	<u>\$ 6,286,375</u>

Total Assets increased \$883,185. Most of this change was an increase in Capital Assets of \$600,650. The addition to capital assets includes:

1. Maple/Boone storm water projects of \$196,464
2. Municipal Aid Program street projects of \$46,751(Fulton Road, Seventh Street, and Downtown Mast Arm project)
3. Community Development Block Grant (CDBG) Disaster Recovery Grant projects of \$432,334
4. Justice Assistance Grant software of \$11,798
5. Initial work on the Sphar Building renovation of \$100,000
6. A down payment on fire equipment of \$309,836

The remaining \$748,110 includes departmental additions (vehicles, ambulance, and equipment).

Current and Other Assets increased about \$282,536. Cash increased about \$141,753. General Fund and Other Funds cash increased about \$370,200. However, that was offset by the Capital Equipment Fund cash decrease \$228,500. A big part of that decrease was the \$500,000 transferred to General Fund for the Firefighter Overtime Payout. Accounts Receivable also increase by about \$140,517. These increases were items ordered towards the end of the year but not paid until FY2017.

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MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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These increases include:

1. \$36,000 paid for a Nonpoint Source Pollution Control Grant rain garden project
2. \$5,100 for Sphar Building grant project
3. \$5,500 paid for an air conditioner replacement
4. \$12,000 for a fire station kitchen remodel
5. \$6,800 for a Communications subscription update
6. \$14,100 paid for Fire/EMS physicals
7. \$5,200 for ambulance repairs
8. \$58,300 for the Maple Street storm sewer repair

Net Investment in Capital Assets increased about \$1.4 million with the additional fixed asset purchases that exceeded depreciation expense along with the retirement of capital-related debt. These additional fixed assets include computer and radio equipment for Communications; computers, vehicles, and equipment for Police; vehicles and equipment for Fire; ambulance and equipment for Emergency Medical Services (EMS); and heavy-duty vehicles and equipment for Public Works.

At year-end, engineering costs are still on going for the

1. Fulton Road engineering,
2. Seventh Street engineering,
3. Mast Arms projects at Broadway and Main Street
4. Maple Street storm sewer project construction
5. East Washington/Jackson/Franklin/West Washington culvert repairs

Long-term Debt Outstanding decreased \$91,552 because we paid down debt service and only added one capital lease for a remount for one of the ambulances.

In FY 2016, the net pension liability for the CERS system increased by \$4.4 million, reflecting a decrease in the actuarial assumptions for the long-term investment returns from 7.75% to 7.5%. The liability for the Winchester single-employer plan for the Policemen's and Firemen's Defined Benefit plan also increased because the City is not contributing the actuarially required contribution. The amounts listed above for the deferred outflows of resources and net pension liability include amounts for both the cost-sharing County Employees Retirement System plan and the city's single-employer Policemen's and Firemen's Pension Fund which are detailed in the following table.

<u>Describe</u>	<u>CERS</u>	<u>P&amp;F</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$ 3,385,575	\$ 107,376	\$ 3,492,951	\$ 1,259,698
Net Pension Liability	17,474,296	966,300	18,440,596	5,192,479
Pension expense	3,174,594	242,228	3,416,822	289,400

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

**CITY OF WINCHESTER, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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

The following table summarizes the Statement of Activities for 2016 and 2015.

	<b>Governmental Activities</b>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,417,632	\$ 1,305,283
Grant funding	1,855,199	2,687,185
Capital contributions	1,026,043	400,553
General revenues:		
Property taxes	2,371,164	2,347,433
License fees and permits	1,005,936	985,561
Payroll taxes	8,459,226	7,739,512
Insurance premium tax	2,264,691	2,144,844
Transient room tax	135,840	143,273
Other taxes	116,325	116,328
Interest and investment earnings	55,757	49,152
Parking fines	1,530	1,865
Other local revenues	385,599	166,129
Gain(Loss) on Disposal of Fixed Assets	-	
Total Revenues	19,094,942	18,087,118
Program Expenses:		
General government	4,003,353	3,225,376
Public Protection		
Dispatch	1,197,274	880,828
Police	4,088,150	3,571,596
Fire	4,527,191	4,469,490
EMS	2,608,852	2,236,864
Public Services	1,735,127	1,491,674
Intergovernmental services	955,369	910,352
Interest on long-term debt	73,597	80,166
Total Expenses	19,188,913	16,866,346
Excess (deficiency) before transfers and special items	(93,971)	1,220,772
Loss on disposal of fixed assets	122,013	
Net increase (decrease) in net position	\$ 28,042	\$ 1,220,772

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Total Revenues increased \$1 million. Most of that increase was from Payroll Taxes. This is one indication that the economy is improving. Major revenue increases include:

1. \$719,700 increase in Payroll Taxes (due to economy, industrial expansion, etc.)
2. \$113,200 increase in Charges for Services (EMS Revenue due to change in billing company and the Affordable Care Act)
3. \$119,800 increase in Insurance Premium Taxes (due to economy)
4. \$91,100 in Other Local Revenues (Main Street for fundraising)

Grant Funding for operations decreased about \$831,986. Most of this decrease is the acceptance of streets in FY2015. No streets were accepted in FY2016.

Capital grants increased \$625,490 mainly from two federal grants but were offset by other grant decreases (mainly Federal Forfeiture). Capital grants increased because of two federal grants:

1. \$432,334 for the CDBG Disaster Recovery Grant
2. \$309,836 for the Assistance to Firefighters Grants (aerial apparatus)

General Revenues include an increase in Payroll taxes (\$719,714) and Insurance Premium taxes (\$119,847). Licenses and Permits recovered this year and increased \$20,375. The payroll taxes increased because of a better economy, industrial expansion, and more jobs in the community. Insurance premium taxes can be attributed to several reasons: higher premiums; more property owners; and the economy. Licenses and Permits increased as more occupational licenses were issued, electric franchise fees improved, and more building permits were issued.

Total expenses increased \$2.3 million. Most of this increase was in public safety from increases in wages, overtime, and medical insurance. The major increases were due to the state unfunded pension liability (GASB 68). These increases were (\$516,554).

1. Dispatch increased \$147,800
2. Police increased \$304,600
3. Fire increased \$261,600
4. EMS increased \$176,303
5. Public Works increased \$134,500
6. General Government expenses increased \$777,977. Economic development projects accounted for \$207,800. The state unfunded pension liability accounted for \$200,700. The local police and fire pension fund accounted for \$227,200.

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Governmental Funds Balance Sheet

The following table summarizes the Governmental Funds Balance Sheet for 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and Cash Equivalents	\$ 8,409,429	\$ 8,267,676
Accounts Receivable	2,118,155	1,994,411
Prepaid Expenses	7,344	7,080
Other Assets	-	
Total Assets	<u>\$ 10,534,928</u>	<u>\$ 10,269,167</u>
Liabilities:		
Accounts Payable	\$ 173,273	\$ 77,919
Accrued Payroll & Related Liabilities	732,896	674,146
Accrued TIF Incentive Payable	90,288	48,913
Due to Other Funds	12,893	29,668
Total Liabilities	<u>1,009,350</u>	<u>830,646</u>
Fund Balances:		
Nonspendable		
Restricted	921,806	911,502
Committed	2,750,295	2,914,521
Assigned	1,390,445	751,729
Unassigned	4,463,031	4,860,769
Total Fund Balances	<u>9,525,578</u>	<u>9,438,521</u>
Total Liabilities & Fund Balance	<u>\$ 10,534,928</u>	<u>\$ 10,269,167</u>

As noted previously, Cash and Cash Equivalents increased \$141,753. General Fund and Other Funds cash increased about \$370,200. However, that was offset by the Capital Equipment Fund cash decrease \$228,500. A big part of that decrease was the \$500,000 transferred to General Fund for the Firefighter Overtime Payout.

Accounts Receivable increased \$140,517 as mentioned before in the Statement of Net Position. Current liabilities increased \$178,704, including increases in accounts payable of \$95,354, accrued payroll of \$58,750, and the TIF accrual of \$41,375. Amounts due to other funds (\$12,893) are also included in the receivables as amounts due from other funds and reflects amounts due for advances on grant projects.

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.

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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, and the portion of fund balance appropriated in the subsequent year’s budget.
- Unassigned – residual balance in General Fund

Restricted funds increased \$10,304, representing obligations for grant projects that have not been completed (Fulton Road, Seventh Street, and Downtown Mast Arms). Committed funds decreased \$164,226. Payroll Tax revenues increased but the funds were offset by the \$500,000 transfer to General Fund for the firefighter payout obligation.

Assigned Funds include the self-insured health insurance funds (\$551,845), which decreased about \$200,000 and the portion of fund balance appropriated for expenditures in the FY 2017 budget (\$838,600), which is an additional balance in this category for FY 2016. Unassigned funds (General Fund) decreased \$397,738, ending the year with a balance that represents 27.5% of general fund expenditures.

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

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

The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2016 and 2015.

	<b>Governmental Activities</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
REVENUES:		
Taxes	\$ 13,347,248	\$ 12,491,389
Licenses & Permits	1,005,936	985,561
Charges for Services	1,417,633	1,305,283
Fines	1,530	1,865
Intergovernmental	2,881,242	2,374,778
Investment Income	55,757	49,152
Other	385,599	166,125
TOTAL REVENUES	19,094,944	17,374,153
EXPENDITURES:		
General Government	3,073,568	2,604,611
Public Safety	11,623,259	10,688,278
Public Works	1,510,965	1,410,051
Intergovernmental	955,369	910,352
Capital	1,847,853	1,097,619
Debt service principal	293,490	281,566
Debt service interest	73,597	80,166
TOTAL EXPENDITURES	19,378,100	17,072,643
Excess (Deficit) of Revenues over Expenditures	(283,156)	301,510

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*Statement of Revenues, Expenditures, and Changes in Fund Balance for 2016 and 2015 (continued).*

	<b>Governmental Activities</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
Excess (Deficit) of Revenues over Expenditures	(283,156)	301,510
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term borrowing	149,927	
Gain/loss on sale of capital assets	220,285	
Operating transfers in	559,836	
Operating transfers out	(559,836)	
TOTAL OTHER FINANCING SOURCES (USES):	<u>370,212</u>	
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	87,056	301,510
Fund Balance, beginning	9,438,521	9,137,011
Fund Balance, ending	<u>\$ 9,525,577</u>	<u>\$ 9,438,521</u>

The difference between revenues and expenses shows how total fund balance has changed since last year. Total fund balance increased \$87,056. General Fund provided an operating surplus of \$240,578, while the Capital Equipment Fund declined \$306,202 after a \$500,000 transfer to General Fund and \$59,836 grant match to Federal grant projects. The \$500,000 transfer to General Fund was made to help cover the cost of the firefighter overtime payout, the County Employees Retirement System (CERS) employer portion, and the legal expenses.

The smaller special revenue funds netted a surplus of \$152,281, mainly for two funds. The Main Street Fund surplus increased \$91,000. We also added the Sphar Building Rehabilitation Other Fund and that surplus was \$50,000.

Capital and Operating Activities

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

	<b>FY 2016 Governmental Activities</b>		
	<b>Capital</b>	<b>Operating</b>	<b>Total</b>
Revenues	\$ 1,018,066	\$ 18,447,091	\$ 19,465,156
Expended	(1,324,268)	(18,053,832)	(19,378,100)
Net	<u>\$ (306,202)</u>	<u>\$ 393,258</u>	<u>\$ 87,056</u>
	<b>FY 2015 Governmental Activities</b>		
	<b>Capital</b>	<b>Operating</b>	<b>Total</b>
Revenues	\$ 1,222,770	\$ 16,151,382	\$ 17,374,152
Expended	(1,090,355)	(15,982,287)	(17,072,642)
Net	<u>\$ 132,415</u>	<u>\$ 169,095</u>	<u>\$ 301,510</u>

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These revenues are primarily occupational license fees (1/8 share provided by ordinance). Last year's EMS reimbursement was higher because of the emergency purchase of an ambulance. This revenue decreased but excludes the proceeds from long-term borrowing, the gain on sale of capital assets, and operating transfers out. Capital expenses increased \$233,900, mainly because of the storm water projects.

Operating revenues increased \$1,405,700 mostly due to increases in the payroll tax, insurance premium tax and, EMS revenues. As stated before, increases in the payroll tax and insurance premium taxes are the result of a better economy. EMS revenues increased due to a change in the billing company and the resulting efficiency in collecting payments.

Operating expenses increased \$2,071,500. Part of this increase was:

1. The fire department was the largest expense. There was \$522,500 for the firefighter overtime payout and \$100,000 for a new roof.
2. The Commission department had \$207,800 for economic development projects.
3. The Legal department had \$148,700 in legal fees for the firefighter overtime payout.
4. The Communications department had \$133,900 in salaries and wages, overtime, and health insurance.
5. The Police Department has \$171,500 in salaries and wages, overtime, and health insurance.

**BUDGETARY HIGHLIGHTS**

This section explains significant changes between the original and final adopted general fund budget. The Schedule of Revenues, Expenditures, Changes in Fund Balance Budget-To-Actual financial reports begin on Page 38 with reports for the General Fund and Capital Equipment fund, a major special revenue fund.

Actual General Fund revenue exceeded budget estimates by about \$426,600. Tax revenues exceeded budget by about \$561,600 as more jobs were added to the local economy. License and Permits exceed budget by \$25,900.

Most of the general fund under-budget revenue difference (under budget by \$125,400) 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). Grant construction was finished in April, 2016. This project was budgeted in General Fund because it was thought to be a reimbursable grant. However, the grant was 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.

Operating expenses were under budget by about \$1.25 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. The General Fund budget projections are based on all positions being filled all the time. That was not the case, but it is how the budget is prepared.

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In the Capital Equipment Fund, Other Income came in under budget by about \$168,000. Loan proceeds of \$150,000 are listed as one of these Other Income budget revenues. However, on the Budget-To-Actual table, the revenue (\$149,927) is listed as Proceeds from Long-Term Debt.

Capital Equipment Fund expenses were under budget by \$656,800.

1. In Special Projects, \$525,000 was budget for stormwater projects but only \$196,300 was spent.
2. In the Fire Department, \$550,000 was budgeted for a training tower replacement that was not purchased.
3. There was a budgeted transfer of \$500,000 from Capital Equipment to General Fund that was put in place should general fund revenue expectations not be met. That transfer was made to help cover the costs of the Firefighter Overtime settlement.

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

The first budget amendment added the following:

1. Added \$180,000 to GF expenses for two economic tax incentive projects. Please see the "Business Incentive Projects" portion of this report.
2. Added \$627,000 to GF Fire Department for the Firefighter Overtime settlement. Please see that section.
3. Added \$5,500 to General Fund Transfers for additional appropriations to two agencies.
4. Added \$43,800 to Capital Equipment Fund for equipment and loan payment.
5. Added \$1,111,300 to Grants. The largest grant was an Assistance to Firefighters Grant for \$1 million for the purchase of an aerial apparatus.

The second budget amendment added the following:

1. Added \$2,000 to GF Transfers for an additional agency appropriation.
2. Added \$145,000 to General Fund Legal Department for legal expenses for the Firefighter Overtime settlement.
3. Added \$30,000 to Capital Equipment Fund for a motor vehicle.
4. Added \$51,000 to Other Funds for Main Street and Police Department Special Fund for additional expenses.

**LONG-TERM DEBT**

The City finances a variety of equipment purchases with capital lease financing. During FY 2016, one ambulance was refurbished with a remount, financed with a capital lease of \$149,927. The ending balance of all capital leases was \$1,620,648 as of June 30, 2016. More information about long-term debt is explained in Note 8 of the Notes to the Financial Statements.

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**BONDS**

The City authorized the issuance of industrial building revenue bonds in an amount not to exceed \$140,000,000 (Ordinance No. 10-215) for the Catalent Pharma Solutions, LLC Project. The ordinance approved: (1) a trust indenture with U.S. Bank; (2) a Memorandum of Agreement for a lease agreement for the acquisition, construction, equipping, and installation of an approximately 80,000 square foot expansion; (3) a bond purchase agreement; (4) a Payment In Lieu of Taxes (PILOT); and (5) a home office payments agreement.

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

**MAJOR CAPITAL PROJECTS FOR THE YEAR**

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

	Governmental Activities	
	FY 2016	FY 2015
Construction in progress	\$ 1,117,562	\$ 669,767
Land	2,152,683	2,152,683
Buildings	2,630,921	2,839,675
Vehicles	1,300,521	1,212,151
Furniture & fixtures	45,183	64,083
Equipment	818,025	840,793
Infrastructure	6,228,902	5,913,995
Total Capital Assets, Net of Depreciation	\$ 14,293,797	\$ 13,693,147

**Buildings and Land**

In FY2016, 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 \$221,607. A large part of this was the new roof on Ecton Station #1 for \$100,000.

The City purchased property at 127 North Main Street (Sphar Building) for \$100,000. The Sphar Building is an empty and deteriorating old feed and grain store. This is part of a grant project that will be discussed under "Other Development" later in this report.

**Curbs, Gutters, Sidewalks, Other**

The "Other" project is the Eugene Gay Outdoor Pool. The pool had deteriorated and could not be repaired. In FY2015, the pool was demolished at a cost of \$19,800. We received \$10,000 from the Clark County Attorney and \$10,000 from the Bluegrass Area Development District for the demolition. The City contracted with Bravura for the engineering and design for a splash pad. Engineering cost to date is \$8,259.

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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 \$3,960 for minor storm drain repairs. As of June 30, 2016, \$2,139,100 has been spent to replace and/or restore existing storm sewers (including the projects listed below).

The City and WMU have known about the problems with the Maple Street sanitary sewer. On July 16, 2013, the Commission approved Order No. 2013-110 to execute a Memorandum of Understanding (MOA) with WMU for the Maple Street Sanitary and Storm Sewer Water Improvement Project. The City 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.

The project was bid out and approved for construction on November 17, 2015. The total construction costs for the project are estimated at \$538,656. The City's share of the cost for the storm water component is \$414,531. Construction began April, 2016. So far, engineering costs are \$43,964 and construction costs to date have been \$182,203.

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 culvert 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

The Bluegrass Area Development District administered the grant. Construction began January 20, 2015, and was finished March, 2016. We spent \$432,433 this year. The total cost of the project was \$571,140. An amendment to extend the completion date to March 30, 2016 was granted.

Three other storm sewer/culvert projects have been identified: (1) East Washington/Jackson streets; (2) East Washington/Franklin streets; and (3) West Washington culvert rehabilitation. These three projects are still in the engineering/easement/acquisition stages. Engineering/construction costs to date are:

1. \$4,890 for Washington/Jackson
2. \$14,450 for Washington/Franklin
3. \$10,500 for West Washington Street culvert

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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 \$294,270 to maintain city streets.

The City did not accept any streets into the City street system. It is City policy to accept streets into the system on the condition that the developer is responsible for repairs to the streets for one year following acceptance.

*KY Department of Transportation JL-04 Bond Fund*

In FY2011, the City applied to the Kentucky Department of Transportation (KDOT) for JL-04 bond funds for three projects: (1) Fulton Road Extension Project; (2) Seventh Street Relocation Project; and (3) Downtown Mast Arms. Contracts for the first two projects (engineering) were awarded in 2011. The contract for the third project (engineering) was awarded in 2014.

The state has approved \$585,000 for the Fulton Road project – design, right-of-way acquisition, and utility relocation. State and city engineers are currently working on the plans and land acquisition for the Fulton Road Extension Project. Total costs so far are \$39,900.

The state has approved \$240,000 for the Seventh Street project – design. Total costs so far have been \$199,735 for engineering.

On April 15, 2014, Order No. 2014-25 was approved with the Kentucky Department of Transportation (KDOT) for \$160,000 to construct a downtown mast arms project. An engineering contract was approved July 15, 2014. So far, we have spent \$18,654 for engineering costs.

When these first two projects (Phases I) 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).

*Kentucky State Road Projects*

Last year, the Lexington Avenue/U.S. 60 corridor was rebuilt. The existing sidewalks, curb, and guttering were replaced first. Then the entire road was rebuilt. Construction of the road began in the spring and was finished 2016.

Two major intersections were improved with new turn lanes: (1) Redwing Drive and the Bypass, Kentucky 1958; and (2) Lexington Avenue and the Bypass, Kentucky 1958.

Franchise

On May 5, 2014, the City awarded a five-year non-inclusive franchise to Time Warner Cable Midwest LLC (Order No. 2015-92). The Kentucky Utilities current franchise agreement expired in 2015, and was subsequently renewed. The Columbia Gas franchise agreement expires in 2017.

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Annexation

The City did not annex any property.

Land Improvements

There were no major land improvements in FY2016.

**BUSINESS INCENTIVE PROJECTS**

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

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

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

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

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

Many projects listed on the next page 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	Reso #R2015-1 3/3/2015 Term 10 yrs	1%	3/26/2015
Catalent Pharma Solutions LLC	KBI	\$46,800,000	\$2,000,000	307	90	Reso #R2013-6 11/5/2013 Term - 10 yrs	1%	12/12/2015
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	Reso #R2014-13 10/21/2014 Term 10 years	0.50%	
Taica Corporation	KBI	\$8,049,232	\$500,000	NA	30	Reso# R2014-5 5/6/2014 Term 10 yrs	0.50%	1/1/2016
The Freeman Corp	KBI	\$3,440,000	\$500,000	202	32			
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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**TAX INCREMENT FINANCING**

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

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

The Winchester Plaza renovations were completed about six years ago. Business activity in the area continues to thrive. However, since Amazon moved into their permanent building, the corresponding drop in payroll taxes greatly decreased the 2014 payment to the developer. Winchester Plaza is an improved anchor for our community. The following table summarizes the City's pledge to date.

WINCHESTER PLAZA TIF DISTRICT	
2010-2011	14,884.45
2012	39,667.40
2013	17,014.70
2014	21,890.00
2015	28,365.00
Total Payments to Date	121,821.55

**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%. The effective date was April 1, 2012.

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

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

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The elementary school revenue sharing is based on \$53,267 average payroll taxes. In year one, the City/County share is 50%. In year two it is 60/40 percent. In year three it is 67/33 percent.

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

REVENUE SHARING FISCAL COURT	
2012	\$128,019
2013	\$150,969
2014	\$238,306
2015	\$249,996
2016	\$286,620
Total Payments to Date	\$1,053,910

**ECONOMIC DEVELOPMENT**

The City has been fortunate in the development of the Industrial Park on the north side of town. The Winchester/Clark County Industrial Development Authority (WCC-IDA) oversees development of the Park. WCC-IDA is funded by the City and the County. The Industrial Park development began in 1980. Phase VI provided an additional 300 acres to be used for development. Approximately \$2.4 million of infrastructure improvements (water and sewer lines) were installed in the Phase VI development. The next phase was the construction of a bridge over the CSX tracks on Van Meter Road. It 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 460 students were enrolled during the fall of 2015. 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.

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

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

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

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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 6.2% unemployment rate and ended the fiscal year with a 5.4% unemployment rate. Not since April of 2008 has the unemployment rate (5.3%) been this low. Our per capita income is about \$37,244 and household income is about \$46,554.

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.

We have been involved with the Bluegrass Alliance and Kentucky United to further promote and market our specific region to companies and site-selection committees. WCC-IDA will continue efforts throughout the community to put people back to work.

**INDUSTRIAL PARK**

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

Catalent completed construction on their \$52 million expansion and added 200 new jobs. They have also announced another expansion of \$62 million and adding 300 more jobs. Subsequent to year end, the City of Winchester approved the issuance of Industrial Building Revenue bonds of up to \$140 million to help Catalent construct an 80,000 square-foot expansion for the pharmaceutical manufacturing facility.

The Industrial Park includes the following companies and employs over 2,900 people:

1. Advanced Green Components (AGC)
2. Ainak
3. Alltech
4. Amazon
5. Arrow Metal
6. AT&T Routing Center
7. Brake Parts
8. Catalent Pharma Solutions
9. CAKY (Community Alternatives of KY)
10. City of Winchester Fire Station #3
11. Clark County Extension Office
12. Contech Construction Products

**CITY OF WINCHESTER, KENTUCKY  
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13. Custom Cylinders International
14. God's Pantry
15. Hogan Motor Leasing
16. Infiltrator Systems, Inc.
17. J & T Munitions, Inc., dba J & T Distributing
18. Kentucky Bluegrass Community and Technical College
19. Kentucky Heat Treating
20. Kraft Brothers
21. Man-Sea Metal
22. Precision Mechanical
23. Reidy Medical Supply
24. Royal DSM (formerly Martek Biosciences)
25. Rocky Mountain ATV
26. Saunier Moving & Storage
27. Sav-A-Lot
28. Sekisui S-LEC America, LLC
29. Senko (USA Inc.)
30. Serv-Pro
31. Sonoco
32. TAICA North American Corporation
33. Univance
34. Walle Corporation
35. Winchester Coatings
36. Winchester Farms Dairy

**STATUS OF GRANTS**

The City of Winchester vigorously pursues grant opportunities to aid in the development and improvement of its services, equipment, and infrastructure.

The following grants were received prior to FY2016 and are still ongoing:

1. Transportation Enhancement Act 21 (TEA-21), Welcome Center Revitalization for the Sphar & Company Seed Building, \$1 million (in design phase)
2. Kentucky Nonpoint Source Pollution Control Grant, Lower Howard's Creek Watershed Improvement Initiative, \$303,709 (60/40 match)
3. Assistance to Firefighters Grant, Tower Ladder Fire Apparatus, \$1 million, Local Match \$100,000
4. Kentucky Department of Local Government Recreational Trails Program, \$55,530 (awaiting Federal Highway approval)
5. Kentucky Department of Local Government, Winchester Youth Soccer Complex Restroom/Concession Project, \$75,000 (ready to bid)

Five grants were completed and closed out during FY2016:

1. CDBG Disaster Recovery Program Grant, \$621,000, culvert reconstruction
2. Kentucky Local Law Enforcement Grant, Armor Vests and Plates, \$6,606
3. Kentucky Renaissance on Main Grant, \$2,460
4. Kentucky CMRS Grant, Upgrade 911 Phone System, \$140,000

**CITY OF WINCHESTER, KENTUCKY  
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5. Federal Justice Assistance Grant Edward Byrne Memorial, software, \$11,800

**STORMWATER CONCERNS**

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

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

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

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

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

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

**OTHER DEVELOPMENT**

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*) These businesses continue to thrive. Discussions are continuing for potential new development. The TIF district has been a success.

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

The City finished the Depot Street Project three years ago. The renovated street has greatly enhanced the area. The City applied for grant funds and a TEA-21 grant for the rehabilitation of the Sphar building in the downtown area (next to the Depot Street/Farmer's Market restoration) was approved. The TEA-21 grant was awarded for \$1 million. We will receive additional funding from the Clark County Fiscal Court in the form of a \$500,000 CDBG grant. The City and the Fiscal Court will each contribute \$50,000. This building is over 130 years old and will be re-purposed for a Winchester and Clark County Welcome Center. The building was purchased for \$100,000 from the Greater Clark Foundation ( which will provide another \$250,000).

The Daniel Boone Pioneer Festival has been in existence for 38 years. The festival is held on Labor Day weekend and it is a huge success every year. The festival showcases our local talent, artists, and "Kentucky Proud" vendors. 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 8th Beer Cheese Festival on June 11, 2016. This festival also highlights local talent, artists, and "Kentucky Proud" items. Winchester First also hosted free concerts and sponsored another façade project. In the downtown area, 15 new businesses opened and over 12 properties were purchased. Many of these buildings are historic and will be renovated according to historic preservation standards. Most of the downtown Main Street area is on the National Registry of Historic Places.

**CITY OF WINCHESTER, KENTUCKY  
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**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 Veteran's Memorial Parkway will bring about balanced residential and business growth on the east side of Clark County. Economic development continues to increase.

We began the fiscal year with a 5.4% unemployment rate (down from 6.2% at the same time last year) and ended the fiscal year with a 5.2% unemployment rate.

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

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

The City did not approve the maximum allowable real property tax rate for calendar year 2015. The rates were the same as the previous year. The FY2016 budget was based on the maximum allowable rate, so this revenue was under budget expectations.

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

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

During our FY2016 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2016, a 2% COLA was granted to employees. This was very important to our employees. We are a service organization and retaining qualified employees is essential for public safety and administration.

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

1. Improving the City's financial position, i.e. that revenues (specifically property tax, payroll tax, and insurance premium tax) will exceed expenses.
2. The impact of coal production in the state (which helps our roads and bridges)
3. The impact of unfunded federal mandates.
4. The impact of global economics (example is the decrease in gasoline tax revenues resulting from the decrease in gasoline prices).

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.

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

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

**CONTACTING THE CITY'S FINANCIAL TEAM**

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

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

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

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

Jennifer Sparks  
Supervisor of Finance and Accounting  
Winchester Municipal Utilities  
150 North Main Street, P. O. Box 4177  
Winchester, KY 40392-4177  
859-744-5434  
[jennifers@wmutilities.com](mailto:jennifers@wmutilities.com)

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	<u>PRIMARY GOVERNMENT</u>		<u>COMPONENT UNIT</u>
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>TOTAL</u>	
<b>ASSETS:</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 8,409,429	\$ 8,409,429	\$ 10,897,687
Restricted Cash and Cash Equivalents	0	0	311,688
Accounts Receivable			
Taxes	1,602,511	1,602,511	
Accounts, net	274,377	274,377	1,987,909
Intergovernmental	223,542	223,542	0
Other	4,830	4,830	97,533
SDC Receivables	0	0	482,000
Prepaid Expenses	7,344	7,344	569,069
Accrued Interest	0	0	344
Inventories	0	0	418,751
Total Current Assets	<u>10,522,035</u>	<u>10,522,035</u>	<u>14,764,981</u>
<b>Restricted Assets</b>			
Cash and Cash Equivalents	<u>0</u>	<u>0</u>	<u>13,233,899</u>
Total Restricted Assets	<u>0</u>	<u>0</u>	<u>13,233,899</u>
<b>Noncurrent Assets</b>			
Construction in Progress	1,117,562	1,117,562	10,953,543
Land	2,152,683	2,152,683	1,519,050
Net Capital Assets	<u>11,023,552</u>	<u>11,023,552</u>	<u>104,650,749</u>
Total Noncurrent Assets	<u>14,293,797</u>	<u>14,293,797</u>	<u>117,123,342</u>
<b>TOTAL ASSETS</b>	<u>\$ 24,815,831</u>	<u>\$ 24,815,831</u>	<u>\$ 145,122,222</u>
<b>DEFERRED OUTFLOWS OF RESOURCES-PENSONS</b>	<u>\$ 3,492,951</u>	<u>\$ 3,492,951</u>	<u>\$ 1,259,698</u>
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 173,273	\$ 173,273	\$ 625,099
Other Accrued Liabilities	90,288	90,288	212,630
Accrued Payroll & Related Liabilities	732,896	732,896	
Customer Deposits	0	0	148,659
Accrued Interest Payable	0	0	94,905
Current Portion of Bonds	0	0	3,561,745
Incurred but Not Reported Health Claims	230,692	230,692	
Current portion of Lease Obligations	<u>305,339</u>	<u>305,339</u>	<u>0</u>
Total Current Liabilities	<u>1,532,488</u>	<u>1,532,488</u>	<u>4,643,038</u>
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Lease Obligations	1,315,309	1,315,309	0
Noncurrent Portion of Bonds	0	0	65,898,121
Accrued Sick Leave	705,971	705,971	477,509
Net Pension Liability	<u>18,440,596</u>	<u>18,440,596</u>	<u>5,192,479</u>
Total Noncurrent Liabilities	<u>20,461,876</u>	<u>20,461,876</u>	<u>71,568,109</u>
<b>TOTAL LIABILITIES</b>	<u>21,994,364</u>	<u>21,994,364</u>	<u>76,211,147</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	12,673,149	12,673,149	47,663,476
Restricted	921,806	921,806	0
Restricted for Capital Projects	0	0	11,680,995
Restricted for Bond Debt Service	0	0	1,702,362
Unrestricted	<u>(7,280,536)</u>	<u>(7,280,536)</u>	<u>9,123,940</u>
<b>TOTAL NET POSITION</b>	<u>\$ 6,314,419</u>	<u>\$ 6,314,419</u>	<u>\$ 70,170,773</u>

See Auditor's Report and Accompanying Notes



## **FUND FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**BALANCE SHEET — GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<u>GENERAL FUND</u>	<u>CAPITAL EQUIPMENT FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 4,763,194	\$ 2,124,280	\$ 1,521,956	\$ 8,409,429
Accounts Receivable				
Taxes (net of allowance for doubtful accounts \$38,464)	1,602,512			1,602,512
Accounts, Net of allowance for doubtful accounts (\$536,988)	274,377			274,377
Intergovernmental	172,216	38,434	12,893	223,543
Other	4,830			4,830
Due from Other Funds	12,893			12,893
Prepaid Expenses	7,344			7,344
Accrued Interest				
<b>TOTAL ASSETS</b>	<u>\$ 6,837,366</u>	<u>\$ 2,162,714</u>	<u>\$ 1,534,849</u>	<u>\$ 10,534,928</u>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 160,705	\$ 5,128	\$ 7,439	\$ 173,273
Due to Other Funds			12,893	12,893
Accrued TIF Incentive Payable	90,288			90,288
Accrued Payroll & Related Liabilities	732,896			732,896
<b>TOTAL LIABILITIES</b>	<u>983,889</u>	<u>5,128</u>	<u>20,332</u>	<u>1,009,350</u>
<b>FUND BALANCES:</b>				
Restricted Fund Balance			921,806	921,806
Committed Fund Balance		2,157,585	592,710	2,750,295
Assigned Fund Balance	1,390,445			1,390,445
Unassigned Fund Balance	4,463,031			4,463,031
<b>TOTAL FUND BALANCES</b>	<u>5,853,476</u>	<u>2,157,585</u>	<u>1,514,516</u>	<u>9,525,578</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,837,366</u>	<u>\$ 2,162,714</u>	<u>\$ 1,534,849</u>	<u>\$ 10,534,928</u>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET — GOVERNMENTAL FUNDS**  
**June 30, 2016**

Total Governmental Fund Balances	\$	9,525,578
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		14,293,797
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods		
Deferred Outflows related to pension are not reported in the fund financial statements because they do not represent current financial resources		3,492,951
Certain liabilities are not reported in the fund statements because they are not due and payable, but these liabilities are included in the statement of net position		
Long-term debt		(1,620,648)
Incurred but Not Reported Health Claims		(230,692)
Compensated Absences Liability		(705,971)
Net Pension Liability--Cost-sharing CERS Plan		(17,474,296)
Net Pension Liability--Single-employer Police & Firefighters Plan		(966,300)
Net Position of Governmental Activities	\$	<u>6,314,419</u>

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES —**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

	<u>GENERAL</u>	<u>CAPITAL EQUIPMENT</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES:</b>				
Taxes	\$ 12,166,591	\$ 1,044,816	\$ 135,840	\$ 13,347,248
Licenses & Permits	1,005,936	0	0	1,005,936
Charges for Services	1,417,633	0	0	1,417,633
Fines	1,530	0	0	1,530
Intergovernmental	1,337,449	148,699	1,395,094	2,881,242
Investment Income	28,225	14,175	13,357	55,757
Other	24,232	0	361,367	385,599
<b>TOTAL REVENUES</b>	<u>15,981,595</u>	<u>1,207,690</u>	<u>1,905,659</u>	<u>19,094,944</u>
<b>EXPENDITURES:</b>				
City Commission	644,359	399	0	644,759
City Attorney	195,149	0	0	195,149
City Manager	504,967	0	0	504,967
Finance Department	394,281	0	0	394,281
Planning Department	300,002	0	5,436	305,437
Main Street Department	93,084	0	60,584	153,669
Engineering	102,611	0	0	102,611
Conservancy	37,416	0	0	37,416
Administration	735,279	0	0	735,279
Central Communications	1,026,153	9,807	0	1,035,961
Police Department	3,545,330	12,844	58,593	3,616,768
Fire Department	4,690,073	20,476	4,536	4,715,085
EMS Division	2,115,245	200	140,000	2,255,445
Public Works	1,089,757	992	420,215	1,510,965
Intergovernmental	760,631	0	194,738	955,369
Capital	6,279	912,462	929,111	1,847,853
Debt service principal	0	293,490	0	293,490
Debt service interest	0	73,597	0	73,597
<b>TOTAL EXPENDITURES</b>	<u>16,240,617</u>	<u>1,324,268</u>	<u>1,813,215</u>	<u>19,378,100</u>
Excess (Deficit) of Revenues over Expenditures	<u>(259,022)</u>	<u>(116,578)</u>	<u>92,445</u>	<u>(283,156)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from long-term borrowing	0	149,927	0	149,927
Gain/loss on sale of capital assets	0	220,285	0	220,285
Infrastructure contributions	0	0	0	0
Operating transfers in	500,000	0	59,836	559,836
Operating transfers out	0	(559,836)	0	(559,836)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>500,000</u>	<u>(189,624)</u>	<u>59,836</u>	<u>370,212</u>
Net Change in Fund Balance	240,978	(306,202)	152,281	87,056
Fund Balance June 30, 2015	<u>5,612,498</u>	<u>2,463,788</u>	<u>1,362,236</u>	<u>9,438,522</u>
Fund Balance June 30, 2016	<u>\$ 5,853,476</u>	<u>\$ 2,157,585</u>	<u>\$ 1,514,516</u>	<u>\$ 9,525,578</u>

**CITY OF WINCHESTER, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES — GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$ 87,056
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.	1,847,853
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services.	(1,148,931)
Proceeds of lease proceeds are reported as sources of funds in the fund statements and increases in long-term debt in the governmentwide statements	(149,927)
Gain/loss on sale of fixed assets is reported in the statement of activities to recognize the disposal of fixed assets	(98,272)
Developer contributions of roads and infrastructure are reported in the statement of activities	
Pension liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Single-employer Police & Fire Fund	(227,228)
Cost-sharing County Employees Retirement System	(1,326,718)
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.	(67,855)
Settlement costs for the Firefighters litigation was accrued in prior year governmentwide financial statements but was reported in the governmental fund statements in 2016	905,172
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.	(86,598)
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.	293,490
Change in Net Position of Governmental Activities	<u>\$ 28,042</u>

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT 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, 2016**

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 11,605,000	\$ 11,605,000	\$ 12,166,591	\$ 561,591
Licenses, Franchise & Permits	980,000	980,000	1,005,936	25,936
Charges for Services	1,543,000	1,543,000	1,417,633	(125,367)
Fines	0	0	1,530	1,530
Intergovernmental	1,427,000	1,427,000	1,337,449	(89,551)
Investment Income	0	0	28,225	28,225
Other	0	0	24,232	24,232
<b>TOTAL REVENUES</b>	<b>15,555,000</b>	<b>15,555,000</b>	<b>15,981,595</b>	<b>426,595</b>
EXPENDITURES:				
General Government	2,972,000	3,297,000	3,013,427	283,573
Central Communications	1,020,000	1,020,000	1,026,153	(6,153)
Police Department	3,866,000	3,866,000	3,545,330	320,670
Fire Department	4,327,000	4,984,000	4,690,073	293,927
EMS Division	2,346,000	2,346,000	2,115,245	230,755
Public Works	1,219,000	1,219,000	1,089,757	129,243
Intergovernmental	753,100	760,600	760,631	(31)
Capital	0	0	0	0
Debt service principal	0	0	0	0
Debt service interest	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>16,503,100</b>	<b>17,492,600</b>	<b>16,240,617</b>	<b>1,251,983</b>
Excess (Deficit) of Revenues over Expenditures	(948,100)	(1,937,600)	(259,022)	1,678,578
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	0	0	0	0
Infrastructure contributions	0	0	0	0
Operating transfers in	500,000	500,000	500,000	0
Operating transfers out	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>	<b>0</b>
Net Change in Fund Balance	(448,100)	(1,437,600)	240,978	1,678,578
Fund Balance June 30, 2015	5,212,000	5,212,000	5,612,498	400,498
Fund Balance June 30, 2016	<b>\$ 4,763,900</b>	<b>\$ 3,774,400</b>	<b>\$ 5,853,476</b>	<b>\$ 2,079,076</b>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT 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, 2016**

	SPECIAL REVENUE FUND (CAPITAL EQUIPMENT FUND)			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 1,000,000	\$ 1,000,000	\$ 1,044,816	\$ 44,816
Licenses & Permits	0	0	0	0
Charges for Services	0	0	0	0
Fines	0	0	0	0
Intergovernmental	208,500	208,500	148,699	(59,801)
Investment Income	0	0	14,175	14,175
Other	18,000	18,000	0	(18,000)
<b>TOTAL REVENUES</b>	<u>1,226,500</u>	<u>1,226,500</u>	<u>1,207,690</u>	<u>(18,810)</u>
EXPENDITURES:				
General Government	744,200	744,200	229,855	514,345
Central Communications	58,800	65,800	44,304	21,496
Police Department	144,400	174,400	150,305	24,095
Fire Department	871,300	871,300	147,776	723,524
EMS Division	338,300	375,100	221,554	153,546
Public Works	195,000	195,000	163,386	31,614
Intergovernmental	0	0	0	0
Capital	0	0	0	0
Debt service principal	0	0	293,490	(293,490)
Debt service interest	0	0	73,597	(73,597)
<b>TOTAL EXPENDITURES</b>	<u>2,352,000</u>	<u>2,425,800</u>	<u>1,324,268</u>	<u>1,101,532</u>
Excess (Deficit) of Revenues over Expenditures	<u>(1,125,500)</u>	<u>(1,199,300)</u>	<u>(116,578)</u>	<u>1,082,722</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	150,000	150,000	149,927	(73)
Gain/loss on sale of capital assets			220,285	220,285
Infrastructure contributions	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	(500,000)	(500,000)	(559,836)	(59,836)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>(350,000)</u>	<u>(350,000)</u>	<u>(189,624)</u>	<u>160,376</u>
Net Change in Fund Balance	(1,475,500)	(1,549,300)	(306,202)	1,243,098
Fund Balance June 30, 2015	<u>2,260,000</u>	<u>2,260,000</u>	<u>2,463,788</u>	<u>203,788</u>
Fund Balance June 30, 2016	<u>\$ 784,500</u>	<u>\$ 710,700</u>	<u>\$ 2,157,585</u>	<u>\$ 1,446,885</u>

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF NET POSITION—PROPRIETARY FUND (COMPONENT UNIT)**  
**June 30, 2016**

	<b>ENTERPRISE FUND</b>
<b>ASSETS:</b>	
Current Assets	
Cash and Cash Equivalents	\$ 10,897,687
Restricted Cash and Cash Equivalents	311,688
Accrued Interest, Restricted	344
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$50,405	1,987,909
SDC Assessments Receivable	482,000
Other Accounts Receivable	97,533
Materials and Supplies	418,751
Prepaid Expenses	569,069
Total Current Assets	14,764,981
Restricted Assets	
Cash and Cash Equivalents	13,233,899
Total Restricted Assets	13,233,899
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	104,650,749
Land	1,519,050
Construction in Progress	10,953,543
Total Property, Plant and Equipment	117,123,342
<b>TOTAL ASSETS</b>	<b>\$ 145,122,222</b>
<b>DEFERRED OUTFLOWS OF RESOURCES-PENSONS</b>	<b>\$ 1,259,698</b>
<b>LIABILITIES:</b>	
Current Liabilities	
Accounts Payable	\$ 625,099
Other Accrued Liabilities	212,630
Customer Deposits	148,659
Accrued interest Payable	94,905
Current Portion of Long-Term Debt	3,561,745
Total Current Liabilities	4,643,038
<b>NONCURRENT LIABILITIES</b>	
Compensated Absences	477,509
Noncurrent Portion of Long-Term Debt	65,898,121
Net Pension Liability	5,192,479
Total Noncurrent Liabilities	71,568,109
<b>TOTAL LIABILITIES</b>	<b>\$ 76,211,147</b>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	47,663,476
Restricted for Capital Projects (Expendable)	11,680,995
Restricted for Bond Debt Service (Expendable)	1,702,362
Unrestricted	9,123,940
<b>TOTAL NET POSITION</b>	<b>\$ 70,170,773</b>

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)**  
**For the Year Ended June 30, 2016**

	<u>ENTERPRISE FUND</u>
<b>OPERATING REVENUES:</b>	
Water	\$ 5,481,117
Wastewater	8,621,044
Solid Waste	3,482,515
Transfer Station	46,833
<b>TOTAL OPERATING REVENUES</b>	<u>17,631,509</u>
<b>OPERATING EXPENSES:</b>	
Administrative	2,353,745
Solid Waste	1,916,504
Water	3,343,209
Wastewater	6,572,659
Vehicle Maintenance	129,344
<b>TOTAL OPERATING EXPENSES</b>	<u>14,315,461</u>
Operating Income (Loss)	3,316,048
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	126,521
Interest Expense	(1,714,711)
Other Income	221,537
Gain on Sale of Capital Assets	44,895
Amortization Expense of Bond Discount	(16,798)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(1,338,556)</u>
Net Income (Loss) before Capital Grants & Contributions	1,977,492
Capital Contributions	<u>1,392,288</u>
Change in Net Position	<u>3,369,780</u>
Net Position, Beginning of Year	66,800,993
Net Positon, End of Year	<u>\$ 70,170,773</u>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF CASH FLOWS—PROPRIETARY FUND (COMPONENT UNIT)**  
**For the Year Ended June 30, 2016**

	<u><b>ENTERPRISE FUND</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 17,629,414
Payments to Suppliers	(6,401,903)
Payments to Employees	(2,691,350)
Other Receipts (Payments)	<u>(48,458)</u>
Net Cash Provided (Used) by Operating Activities	<u>8,487,703</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Sale of Equipment	47,301
Principal Payments	(3,492,060)
Interest Payments	(1,714,711)
Purchase of Property, Plant and Equipment	(5,711,901)
Contributed Capital Received	305,382
Cash from Other Income	<u>221,537</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(10,344,452)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash from Interest	<u>126,521</u>
Net Cash Provided (Used) by Investing Activities	<u>126,521</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,730,228)
Cash and Cash Equivalents, Beginning of Year	<u>26,173,502</u>
Cash and Cash Equivalents, End of Year	<u>\$ 24,443,274</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</b>	
Cash and Cash Equivalents - Unrestricted	10,897,687
Cash and Cash Equivalents - Restricted	311,688
Investments - Restricted	<u>13,233,899</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 24,443,274</u>

See Auditor's Report and Accompanying Notes

**CITY OF WINCHESTER, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND (COMPONENT UNIT) (CONTINUED)  
For the Year Ended June 30, 2016**

Reconciliation of Operating Income (Loss) to Net Cash Provided	
by Operating Activities:	
Operating Income (Loss)	\$ 3,316,048
Adjustments to Reconcile Net Income (Loss) to Net	
Cash from Operating Activities:	
Depreciation/Amortization	4,871,193
Changes in Assets, Deferred Outflows of Resources, Liabilities, and	
Deferred Inflows of Resources:	
Accounts Receivable, Customers	(2,785)
Other Accounts Receivable	(48,458)
Material and Supplies	(61,033)
Prepaid Expenses	(53,678)
Deferred Outflows of Resources	(758,300)
Accounts Payable	133,371
Accrued Liabilities	50,035
Net Pension Liability	1,463,900
Compensated Absences	(7,080)
Customer Deposits	690
Deferred Inflows of Resources	(416,200)
	<hr/>
Net Cash Provided by Operating Activities	\$ <u>8,487,703</u>
 <b>Supplemental Information, Noncash Transactions</b>	
Donated Capital assets	\$ <u>1,087,373</u>
Depreciation and Amortization Expense	\$ <u>4,871,196</u>

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION—FIDUCIARY FUND**  
**June 30, 2016**

	<b>PENSION TRUST</b>	<b>AGENCY FUND</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 92,473	\$ 22,166
Investments	1,178,483	
Pension contribution receivable		
Accrued Investment Income	6,267	
<b>TOTAL ASSETS</b>	<b>\$ 1,277,224</b>	<b>\$ 22,166</b>
<b>LIABILITIES</b>		
Accounts Payable		
Due to General Fund	\$	
Due to Member Agencies		\$ 22,166
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>\$ 22,166</b>
<b>FIDUCIARY NET POSITION</b>	<b>\$ 1,277,224</b>	

**CITY OF WINCHESTER, KENTUCKY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUND**  
**For the Year Ended June 30, 2016**

	<u>PENSION TRUST</u>	<u>AGENCY FUND</u>
ADDITIONS:		
Contributions	\$ 20,232	\$ 20,500
Investment Income:		
Interest	25,454	103
Net Appreciation (Depreciation) in Fair Value of Investments	12,320	
(Gain) Loss on Sale of Investments	(17,539)	
Less: Investment Expense	<u>(5,099)</u>	
Net Investment Income	<u>15,135</u>	<u>103</u>
Total Additions	35,367	20,603
DEDUCTIONS:		
Benefits	117,851	
Program Expenses		21,616
HRA Benefits	5,232	
Taxes		
Total Deductions	<u>123,083</u>	<u>21,616</u>
Change in Net Position	(87,716)	(1,013)
Net Position June 30, 2015	<u>1,364,940</u>	
Net Position June 30, 2016	<u>\$ 1,277,224</u>	<u>\$ (1,013)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

*THE FINANCIAL REPORTING ENTITY*

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

Component Unit – WMU

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

BASIS OF PRESENTATION

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

Fund Accounting

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

A. Governmental Fund Types

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

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

B. Proprietary Funds (Enterprise Fund)

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

**BASIS OF ACCOUNTING**

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

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

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

**BUDGETARY PROCESS**

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

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

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

**CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

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

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

Accounts receivable - Customers, are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. An adjustment to an allowance for doubtful accounts is based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2016 and 2015, \$127,245 and \$63,780 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.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**CAPITAL ASSETS**

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

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

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

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

**CAPITAL ASSETS—COMPONENT UNIT (WMU)**

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

**ESTIMATES**

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

**COMPENSATED ABSENCES**

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

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

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

Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense for bond discount as of June 30, 2016 and 2015 was \$16,798 and \$85,983, 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, 2016 and 2015, total interest incurred and expensed was \$1,714,711 and \$1,611,815, 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 liabilities consist primarily of notes payable, accrued compensated absences, retirement benefits and capital lease agreements.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

**PENSIONS**

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

**PENSIONS—WMU**

WMU also implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. WMU reports its proportionate share of the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and additions to/deductions from fiduciary net position based on an analysis prepared by Kentucky Retirement Systems, the CERS cost-sharing plan administrator. This plan is the same plan used by the City. More information on pensions is available in Note 12—Pension Plans.

**INTERFUND TRANSFERS**

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

**NET POSITION**

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

Net position is displayed in three components:

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

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

Net Position—Component Unit (WMU)

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

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

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

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for FY 2016 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 27, 2015 and were due December 4, 2015. Taxes unpaid after December 4, 2015 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Based on collection histories, the City has provided at June 30, 2016, an allowance for uncollectible property taxes of 100% of delinquent accounts.

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

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

**NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)**

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

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

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

**TAP FEES—COMPONENT UNIT (WMU)**

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

**SYSTEM DEVELOPMENT CHARGES—COMPONENT UNIT (WMU)**

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

**JOINT VENTURE**

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

Clark County Geographic Information System Consortium (CCGIS) is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. The city contributed \$87,900 and \$87,772 for the years ended 2016 and 2015, respectively. WMU contributed \$85,747 and \$94,138 for the years ended 2016 and 2015, respectively.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

CCGIS had accounts payables to WMU of \$87,578 and \$-0- for the years ended 2016 and 2015, for reimbursements of payroll and other expenses. CCGIS had no accounts receivable from WMU for the years ended 2016 and 2015, for excess reimbursements of payroll and other expenses. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

**IMPLEMENTATION OF GASB STANDARDS**

GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Statement become effective for the City's fiscal year beginning July 1, 2015. This standard revises the definition of "acquisition value" that the City (and WMU) uses for capitalizing capital contributions. However, the basis for the City's (and WMU's) valuation (developer costs of constructing infrastructure) meets the criteria in GASB Statement No. 72 and does not significantly affect the City's (or WMU's) financial reporting.

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

**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, 2016, the City is in compliance with this requirement.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

<u>Investments</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Mutual Fund	\$ 92,473	\$ 92,473
U.S. Government Securities	1,178,483	1,148,284
Total Investments	<u>\$1,270,956</u>	<u>\$1,240,757</u>

Custodial Credit Risk

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

Credit Risk

State law limits investments in accordance with KRS 95.600 "Pension Fund Investments". The City has no investment policy that would further limit its investment choices. As of June 30, 2016, the City's investments in money market mutual funds were unrated.

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

WMU's investment policy conforms to KRS 66.480. WMU deposits its funds in banks insured by FDIC. Investments include short term cash securities and United States backed securities. Collateral is required for all deposits in excess of FDIC at 100% of the carrying amount at the bank. Collateral consists of obligations of the United States and Kentucky municipal bonds.

Interest Rate Risk

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

06/30/16 Type	Fair Value	Maturities (in Years)			
		< Than 1	1 - 5	6 - 10	> 10
Cash & Cash Equivalents	\$ 24,443,274	\$ 24,443,274	\$ 0	\$ 0	\$ 0
Total	\$ 24,443,274	\$ 24,443,274	\$ 0	\$ 0	\$ 0

**Credit Risk**

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

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

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

06/30/16 Type	Fair Value	Ratings			
		AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 24,443,274	\$ 0	\$ 0	\$ 0	\$ 24,443,274
Total	\$ 24,443,274	\$ 0	\$ 0	\$ 0	\$ 24,443,274

**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, 2016 and 2015 all deposits and investments were either fully collateralized by federal depository insurance or by the pledging institution in WMU's name or were held in a bank's trust department in the City of Winchester's name, the primary government of the component unit, WMU.

**NOTE 3 – WMU RESTRICTED ASSETS**

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

The restricted assets in the accompanying financial statements are restricted as to use by ordinance or by external parties. A schedule of restricted assets at June 30, 2016, follows:

<u>06/30/16</u>	<u>Cash</u>	<u>Investments</u>	<u>Accrued Interest</u>	<u>Total</u>
<b>Restricted by Ordinance:</b>				
Bond Redemption Account	\$ 311,688	\$ 0	\$ 0	\$ 311,688
Reserve Accounts	1,083,885	0	0	1,083,885
Depreciation Account	1,394,345	0	0	1,394,345
Subtotal	<u>2,789,918</u>	<u>0</u>	<u>0</u>	<u>2,789,918</u>
<b>Other Restricted Accounts:</b>				
SDC Water Fund	2,672,189	0	0	2,672,189
SDC Wastewater Fund	157,489	0	0	157,489
Customer Deposits	162,230	0	0	162,230
KIA Reserve	306,789	0	0	306,789
Water Improvements	2,358,215	0	0	2,358,215
2015 Bond Funds	4,292,381	0	0	4,292,381
Capital Accum-Water	510,631	0	0	510,631
Capital Accum-Wastewater	295,745	0	0	295,745
Total	<u>\$ 13,545,587</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,545,587</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**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	\$ 669,767	\$ 1,099,743	\$ (651,948)	\$ 1,117,562
Land	2,152,683	0	0	2,152,683
Total Non-depreciable capital assets	<u>2,822,450</u>	<u>1,099,743</u>	<u>(651,948)</u>	<u>3,270,245</u>
Depreciable capital assets:				
Buildings	5,474,313	0	0	5,474,313
Vehicles	5,855,422	491,044	(1,013,621)	5,332,845
Furniture & fixtures	416,916	3,805	(1,109)	419,612
Equipment	4,248,843	248,585	(93,368)	4,404,060
Infrastructure	22,901,008	656,624	0	23,557,632
Total depreciable capital assets	<u>38,896,502</u>	<u>1,400,058</u>	<u>(1,108,098)</u>	<u>39,188,462</u>
Less accumulated depreciation				
Buildings	(2,634,638)	0	(208,754)	(2,843,392)
Vehicles	(4,643,271)	915,349	(304,402)	(4,032,324)
Computers	(352,833)	1,109	(22,705)	(374,429)
Equipment	(3,408,050)	93,368	(271,353)	(3,586,035)
Infrastructure	(16,987,013)	0	(341,717)	(17,328,730)
Total accumulated depreciation	<u>(28,025,805)</u>	<u>1,009,826</u>	<u>(1,148,931)</u>	<u>(28,164,910)</u>
Total depreciable capital assets, net	<u>10,870,697</u>	<u>2,409,884</u>	<u>(2,257,029)</u>	<u>11,023,552</u>
Governmental activities capital assets, net	<u>\$ 13,693,147</u>	<u>\$ 3,509,627</u>	<u>\$ (2,908,977)</u>	<u>\$ 14,293,797</u>

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

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

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

General Government	\$ 626,681
Public Protection	
Police	118,336
Fire Protection	162,787
EMS	164,641
Public Works	<u>76,486</u>
	<u>\$ 1,148,931</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

WMU's systems consist of the following:

<u>06/30/16</u>	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
<b>Non-depreciable Assets:</b>				
Land	\$ 1,519,050	\$ 0	\$ 0	\$ 1,519,050
Construction in Progress	7,604,754	3,348,789	0	10,953,543
Total Non-depreciable Assets	<u>\$ 9,123,804</u>	<u>\$ 3,348,789</u>	<u>\$ 0</u>	<u>\$ 12,472,593</u>
<b>Depreciable Assets:</b>				
Administrative	\$ 3,344,838	\$ 96,294	\$ (99,238)	\$ 3,341,894
Water System	45,398,702	3,038,564	(1,209,009)	47,228,257
Wastewater System	110,728,744	2,297,278	(1,305,590)	111,720,432
Solid Waste	7,124,154	1,142,540	(728,640)	7,538,054
Vehicle Maintenance	460,592	2,524	(15,722)	449,918
Equipment Capital Lease	81,279	0	0	81,279
Subtotal	<u>168,659,885</u>	<u>6,577,200</u>	<u>(3,358,199)</u>	<u>170,359,834</u>
<b>Accumulated Depreciation:</b>				
Administrative	(1,812,688)	(184,526)	28,155	(1,969,059)
Water System	(13,375,462)	(1,118,067)	31,604	(14,461,925)
Wastewater System	(24,426,456)	(3,133,181)	5,069	(27,554,568)
Solid Waste	(1,877,050)	(427,336)	146,519	(2,157,867)
Vehicle Maintenance	(340,027)	(8,083)	13,197	(334,913)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
Subtotal	<u>(61,062,438)</u>	<u>(4,871,193)</u>	<u>224,544</u>	<u>(65,709,088)</u>
<b>Total Net Property, Plant and Equipment</b>	<u>\$ 106,078,397</u>	<u>\$ 1,706,007</u>	<u>\$ (3,133,655)</u>	<u>\$ 104,650,749</u>

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

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

Depreciation expense in total and by function follows:

<u>Function</u>	<u>2016</u>
Administrative	\$ 184,526
Water System	1,118,067
Wastewater System	3,133,181
Solid Waste	427,336
Vehicle Maintenance	8,083
Total Depreciation Expense	<u>\$ 4,871,193</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 5 — INTERFUND ACTIVITY**

Interfund receivables and payables during the year ending June 30, 2016 were as follows.

Fund	Receivable	Payable
General Fund	\$ 12,893	\$ -
Federal Grant Funds		12,893
Total	\$ 12,893	\$ 12,893

In addition, certain funds have been transferred among the governmental funds to allocate resources for required grant matches and to subsidize operations. Transfers during FY 2016 include the following:

Fund	Transfers Out	Transfers In
General Fund		\$ 500,000
Capital Equipment Fund	\$ 559,836	
Federal Grant Funds		59,836
Total	\$ 559,836	\$ 559,836

**NOTE 6 — OPERATING LEASES**

The City had operating leases for the following equipment at June 30, 2016. Terms of the operating leases are as follows:

<u>Description</u>	<u>Date</u>	<u>Monthly Payment</u>	<u>Months</u>	<u>Location</u>	<u>End Date</u>
Ricoh MPC3503	7/1/2015	\$214	48	City Hall	06/10/19
MP5002SP Copier	10/30/2012	204	48	Fire	10/09/16
MP5002SP Copier	10/30/2012	204	48	Fire-EMS	10/09/16
MPC5502 Copier	10/22/2012	316	48	City Hall	10/01/16
Ricoh MP301SPF	12/14/2012	39	48	Police	11/23/16
MPC3502 Ricoh copier	6/19/2013	159	60	Planning	05/24/18
MP301SPF Ricoh copier	4/10/2014	52	48	City Manager	03/20/18
MP301SPF Ricoh copier	4/10/2014	52	48	Finance	03/20/18
MP301SPF Ricoh copier	5/23/2014	52	48	Fire Sta #2	05/02/18
MPC3503SP Ricoh copier	6/18/2014	167	60	Police	05/23/19

Rental expense for the current fiscal year was \$17,507. The future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$11,448
2018	7,835
2019	4,400
Total	\$23,683

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 7 — CONSTRUCTION IN PROGRESS**

Construction in progress at June 30, 2016 consists of the following:

	Construction in Progress			
	Beginning	Additions	Completed	Ending
7th Street	\$ 197,830	\$ 1,906	\$ -	\$ 199,736
Fulton Rd	162,725	36,775	-	199,500
CDBG Disaster Recovery	181,946	432,334	614,280	-
Maple/Boone Sanitary Sewer	43,965	182,203	-	226,168
Community Splash Pad	19,800	8,259	-	28,059
Downtown Mast Arms	10,583	8,070	-	18,654
Washington-Jackson Storm	4,350	540	-	4,890
Washington-Franklin Storm	10,910	3,540	-	14,450
West Washington Culvert	-	10,000	-	10,000
Sphar Building	-	106,279	-	106,279
Rear Mount Aerial Apparatus	-	309,836	-	309,836
Blanton Alley	37,569	-	37,569	-
	<u>\$ 669,677</u>	<u>\$ 1,099,743</u>	<u>\$ 651,848</u>	<u>\$ 1,117,572</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	\$ 1,764,211	\$ 149,927	\$ 293,490	\$ 1,620,648	\$ 305,339
Sick Leave	619,373		(86,598)	705,971	
Total Governmental	<u>\$ 2,383,584</u>	<u>\$ 149,927</u>	<u>\$ 206,892</u>	<u>\$ 2,326,619</u>	<u>\$ 305,339</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**CAPITAL LEASES**

The City has four capital leases at of June 30, 2016. The liability for the lease obligations have been recorded in the government-wide financial statements. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Details of the leases are presented below.

<u>Purpose</u>	<u>Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payment</u>	<u>Outstanding Balance</u>
Cardiac Monitors	6/13/2014	1.44%	4 years	\$ 68,201	\$ 117,651
Horton Ambulance (EMS)	2/26/2013	1.77%	4 years	\$ 42,697	\$ 63,066
Pierce Pumper Fire Truck	11/19/09	3.94%	7 years	\$ 74,030	\$ 18,327
Winchester Community Center	05/21/10	3.48%	20 years	\$ 152,277	\$ 1,306,463
Ambulance Remount	09/03/15	1.75%	4 years	\$ 36,522	\$ 115,141

Capital leasing commitments to maturity for the year ending June 30, 2016:

2017	\$ 309,481
2018	250,837
2019	176,505
2020	147,271
2021	136,139
Thereafter	<u>1,062,110</u>
Total Minimum Lease Payments	2,082,342
Less interest payments	461,695
Present Value of Minimum Lease Payments	<u><u>\$ 1,620,648</u></u>

**LONG-TERM DEBT—WMU**

WMU issues revenue bonds to finance improvements and extensions to the water and sewer systems. The Winchester Municipal Utilities bonded indebtedness and other long-term notes at June 30, 2016 and 2015, are summarized as follows:

<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Original Issue</u>	<u>2016 Total</u>	<u>2015 Total</u>
2011 Issue	5.27%	1/1/1931	\$ 9,010,000	\$ 7,312,917	\$ 7,672,083
2012 Issue	2.00-3.75%	7/1/1932	7,495,000	6,225,000	6,530,000
2015 Issue			9,915,000	9,715,000	9,915,000
Less: Unamortized Discount				<u>(344,031)</u>	<u>(367,804)</u>
Total Bonds				<u>22,908,886</u>	<u>23,749,279</u>
KIA Loan	1.00%	12/1/2028	21,000,000	13,614,487	14,632,071
		Estimate			
KIA-Lower Howards Creek	2.00%	1/1/1931	36,600,000	31,994,224	33,560,075
		Estimate			
KIA-Bel-Air	2.00%	1/1/1931	1,000,000	469,627	492,612
KIA-Industrial Storage Tanks	2.00%	12/1/1930	340,326	259,802	275,106
KIA-Vaught Court	2.00%	6/1/1931	\$ 287,400	212,840	225,893
Total KIA Loans				<u>46,550,980</u>	<u>49,185,758</u>
Less: Current Maturities				<u>(3,561,745)</u>	<u>(3,499,036)</u>
Total Long Term				<u>\$ 65,898,121</u>	<u>\$ 69,436,001</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

LONG-TERM DEBT – WMU (CONTINUED)

The annual bond and long-term debt service requirements, as of June 30, 2016, are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 3,561,540	\$ 1,655,478	\$ 5,217,018
2018	3,637,083	1,588,593	5,225,676
2019	3,706,313	1,518,451	5,224,764
2020	3,776,544	1,441,237	5,217,781
2021	3,864,446	1,279,777	5,144,223
2022-2026	20,624,768	5,556,256	26,181,024
2027-2031	19,931,719	3,113,413	23,045,132
2032-2036	6,606,691	1,114,091	7,720,782
2037-2041	2,100,000	631,425	2,731,425
2042-2046	1,995,000	202,225	2,197,225
	\$ 69,804,104	\$ 18,100,946	\$ 87,905,050

**Series 2011 Bonds**

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

**Refunding, Series 2012 Bonds**

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

**Series 2015 Bonds**

On December 23, 2015, the City issued \$9,915,000 of utilities revenue bonds for WMU secured by a first and prior security interest in any and all right, title and interest of WMU in the portions of the Project (extensions and improvements of the System) that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and any proceeds therefrom. The 2015 bond issues financed the extensions and improvements to the combined and consolidated municipal waterworks, sanitary sewer and solid waste disposal system. The bonds carry an interest rate of 2% to 4% and mature on July 1, 2045. The interest and principal payments are to be made monthly.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

LONG-TERM DEBT – WMU (CONTINUED)

**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.

**KIA – Vaught Court Loan**

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

**KIA – Lower Howards Creek**

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

**KIA – Industrial Elevated Storage Tank**

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

The loan carries a 2.00% interest rate, with principal and interest payments due on December 1 and June 1 every year until maturity on December 1, 2030. The loan is required to establish a replacement reserve account where \$2,000 is to be added to the account each December 1 until the balance reaches \$20,000 and is to be maintained for the life of the loan.

**KIA – Bel Air Sanitary**

On October 1, 2012, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the Bel-Air and Westside pump station projects, \$1,000,000. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation estimated to be December 1, 2015. During the prior year, \$478,140 of the loan was drawn down. In the current year, the final draw of \$59,095 was drawn on the loan. The loan will carry a 2.00% interest rate and mature in twenty years. The loan is required to establish a replacement reserve account where \$2,500 is to be added to the account each December 1 until the balance reaches \$25,000 and is to be maintained for the life of the loan.

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

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

Long-Term Debt consists of bonds and other indebtedness for which the changes in the years ended June 30, 2016 are as follows:

<u>Description</u>	<u>Beginning</u>	<u>Borrowings Additions</u>	<u>Repayments Reductions</u>	<u>2016 Ending</u>	<u>Current</u>
Compensated Absences	\$ 484,589	\$	\$ 7,080	\$ 477,509	\$
Bonds	23,749,279		840,393	22,908,886	884,167
KIA Loan	14,632,071		1,017,584	13,614,487	1,027,785
KIA-Lower Howards	33,560,076		1,565,852	31,994,224	1,597,419
KIA-Bel-Air	492,613		22,986	469,627	23,448
KIA-Storage Tank	275,106		15,304	259,802	15,611
KIA-Vaught Court	225,893		13,053	212,840	13,315
Total Long-Term Debt	<u>\$ 73,419,627</u>	<u>\$</u>	<u>\$ 3,482,252</u>	<u>\$ 69,937,375</u>	<u>\$ 3,561,745</u>

**NOTE 9 – COMPLIANCE WITH BOND ORDINANCES - WMU**

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

**Bond Debt Service – Bonds**

Monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next principal payment shall be set aside monthly so as to accumulate in the Bond Fund in order to pay interest and principal on the bonds. In addition, the Bond Ordinance requires that a specific amount be maintained in the Debt Service Reserve Account defined as the “Reserve Amount.”

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

The account is to be reviewed each year and funded based on the least of three factors: 1) maximum annual principal and interest requirement, 2) 125% of the average annual principal and interest requirement or 3) 10% of the outstanding loan proceeds. The first factor was applicable for June 30, 2016 and 2015, and required a balance of \$1,048,375.

**Depreciation Reserve – Bonds and KIA Loan**

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

**Interest Coverage Ratio – Bonds and KIA Loan**

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

<b>Bonds:</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Income Available for Debt Service	\$ 3,709,001	\$ 3,181,791
Add: Depreciation	<u>4,871,193</u>	<u>4,810,202</u>
Cash Available for Bond Debt Service	<u>\$ 8,580,194</u>	<u>\$ 7,991,993</u>
Annual Debt Service on Bonds	<u>1,759,194</u>	<u>1,196,844</u>
Coverage Ratio	<u>4.88</u>	<u>6.68</u>
<b>KIA</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Income Available for Debt Service	\$ 3,709,001	\$ 3,181,791
Add: Depreciation	<u>4,871,193</u>	<u>4,810,202</u>
Cash Available for Bond Debt Service	<u>\$ 8,580,194</u>	<u>\$ 7,991,993</u>
Annual Debt Service on Bonds	<u>5,221,129</u>	<u>4,658,525</u>
Coverage Ratio	<u>1.64</u>	<u>1.72</u>

Winchester Municipal Utilities is in compliance with all of the covenants of the bond ordinance and KIA loan agreement as of June 30, 2016 and 2015.

**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	\$ 19,765,601
Wastewater Utility Improvements	<u>21,984,980</u>
Total projected financing requirement	<u>\$ 41,750,581</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

Winchester Municipal Utilities’ five year capital plan of depreciation funded projects consists of the following annual allocations in addition to other specifically identified projects:

Finance and Administration:	
Copiers	\$ 5,000
Upgrade/Renew Network Virus Protection	0
Upgrade Local Area Network	7,000
Replace Microcomputers	6,000
Engineering Software Upgrades	0
Field Operation Vehicles	465,000
Solid Waste Collection:	
Curbit Replacement	25,000
Container Replacement	50,000
Replace Compactor Ejector Box	10,000
Solid Waste Recycling	1,000
Water Treatment Plant Equipment Improvements	50,000
Water System Improvements	570,000
Water Distribution:	
Main Replacement	100,000
Fire Hydrant Replacement	12,000
Gate Valve Box Adjustment – New Paving	0
Gate Valve Replacement	10,000
Elevated Storage Tank Rehabilitation	100,000
Meter Change-Out/AMR Equipment	165,000
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	10,000
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	60,000
Solids Processing Improvements	65,000
Wastewater Treatment Plant (LHC)	15,000
Wastewater Solids Processing (LHC)	15,000
Total Annual Allocations for Infrastructure Investment	\$ 1,991,000

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2011, 2012 and 2015 bonds and KIA outstanding debt referenced in Note 8. Proceeds from these debt obligations provided financing of the water and wastewater infrastructure, including a new wastewater treatment plant. The debt obligations will be repaid from the previously mentioned utility revenues through the year 2045.

**NOTE 12 – PENSION PLANS**

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

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

<u>Describe</u>	<u>CERS</u>	<u>P&amp;F</u>	<u>Total City</u>	<u>WMU</u>
Deferred Outflows	\$ 3,385,575	\$ 107,376	\$ 3,492,951	\$ 1,259,698
Deferred Inflows	-0-	-0-	-0-	-0-
Net Pension Liability	17,474,296	966,300	18,440,596	5,192,479
Pension expense	3,174,594	242,228	3,416,822	289,400

**A – POLICEMEN’S AND FIREMEN’S PENSION FUND**

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

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

Membership Data for the Closed Plan:

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

The Policemen’s and Firemen’s Pension Plan’s actuarial valuation was performed on July 1, 2016, and the report issued by the firm of Bryan, Pendleton, Swats & McAllister, LLC. A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board.

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

The governing board has the authority to grant an annual cost-of-living adjustment for retiree benefit payments and has historically used the CPI as a benchmark for determining an annual COLA. The actuarial report as of July 1, 2016 included projections based on a zero COLA and a 2% COLA. The COLAs granted for the last five years are listed below:

Date	COLA
July 1, 2016	.70%
July 1, 2015	.80%
July 1, 2014	1.50%
July 1, 2013	1.77%
July 1, 2012	2.96%

The City’s previous contribution policy was to amortize unfunded actuarial accrued liabilities over thirty years (open basis). Starting with the year ended June 30, 2001, the unfunded actuarial liabilities are assumed to be amortized by year 2012 (closed basis), but with any unfunded actuarial accrued liability after 2007 being amortized over five years (open basis). However, the City is only contributing a fixed amount of \$15,000 per year.

*Pension Plan Investments.* The governing board has placed the trust with PNC Institutional Asset Management to invest and manage the trust assets. The president has adopted an investment policy that limits investments to only purchases of U. S. government securities. No formal investment policy has been adopted by the governing board. PNC Institutional Asset Management provides quarterly reports to the governing board. As of June 30, 2016, PNC has invested 1.38% of the trust in a mutual fund (for cash flow purposes) and 98.63% in U.S. Treasury securities. As of June 30, 2016, the annual money-weighted rate of return, net of investment expense is a 1.16%.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016**

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

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

As of June 30, 2016, the US Treasury securities included the following:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Rating</u>	<u>Market Value</u>	<u>Cost</u>
Treasury Notes	4.625%	11/15/16	AAA	\$ 101,586	\$ 119,055
Treasury Notes	4.5%	05/15/17	AAA	103,434	102,316
TIP Notes	1.625%	01/15/18	AAA	118,588	105,186
Treasury Notes	3.5%	02/15/18	AAA	104,695	100,446
TIP Notes	1.875%	07/15/19	Unrated	121,308	105,770
Treasury Notes	3.375%	11/15/19	AAA	108,660	96,926
Treasury Notes	1.5%	08/31/18	AAA	50,943	50,283
Treasury Notes	.875%	07/31/19	AAA	75,308	73,931
Treasury Notes	.625%	08/31/17	AAA	50,045	49,309
Treasury Notes	.875%	01/31/18	AAA	100,465	99,258
Treasury Notes	1.125%	03/31/20	AAA	101,016	98,965
Treasury Notes	1.125%	04/30/20	AAA	126,226	125,630

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

*Components of the Net Pension Liability.* The components of the liability of the City for benefits provided through this single-employer plan include the following as of June 30, 2016:

<u>Describe</u>	<u>Amounts</u>
Total Pension Liability	\$ 2,243,524
Pension Plan’s Fiduciary Net Position	1,277,224
Net Pension Liability	<u>\$ 966,300</u>
Fiduciary Net Position as Percentage of Total Pension Liability	56.9%

*Significant Assumptions Used in Actuarial Study.* The actuarial analysis, completed as of June 30, 2016, has been based on the demographic estimates for the remaining eight retirees using the entry age normal funding method as required by GASB Statement Nos. 67 and 68.

- Normal retirement period applied to employees who had completed 20 years of service and obtained the age of 55. The benefit was 50% of monthly salary at time of retirement.
- Mortality rates are based on the RP-2014 Generational Mortality Tables Adjusted to 2006 with project mortality improvements after 2006 under Scale MP-2015.
- The actuarial assumptions included an assumption for future COLAs compounded at a rate equal to the average adjustment made during the most recent five years (currently 2.00%, compared to 1.71% per annum in the prior year’s report).
- The actuarial value of assets was determined at the market value as reported by PNC Bank, Kentucky, Inc. plus a checking account balance.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

- The projection of cash flows used to determine the **discount rate** assumed that employer contributions will be made on the basis of the current funding policy (\$15,000 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, 2036. 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 2.67% thereafter. This is equivalent to using a uniform discount rate of approximately 3.59% 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.
- The actuaries also provide a sensitivity analysis to outline 1% increase/decrease to the current discount rate. These changes in the discount rate would provide the following net pension liabilities:

	1% Decrease (2.59%)	Current Rate (3.59%)	1% Increase (4.59%)
Net Pension Liability	\$ 1,320,887	\$ 966,300	\$ 686,630

***Schedule of Changes in Net Pension Liability.*** The following table outlines the changes in the total pension liability, plan fiduciary net position, and net position, along with components of the pension expense for the year ended June 30, 2016.

	Increase/(Decrease)			Pension Expense
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	
Balances, June 30, 2015	\$ 2,090,925	\$ 1,364,940	\$ 725,985	
Changes for the Year:				
Interest expense	88,989		88,989	\$ 88,989
Experience loss (gains)	(2,392)		(2,392)	(2,392)
Changes of assumptions	183,853		183,853	183,853
Employer contributions		20,232	(20,232)	
Net investment income		20,234	(20,234)	
Expected return on plan investments				(64,775)
Current expense of asset gain/loss				36,559
Benefits paid	(117,851)	(123,083)	5,232	
Plan administrative expenses		(5,099)	5,099	
Other changes			0	
Net changes	152,599	(87,716)	240,315	\$ 242,234
Balances, June 30, 2015	\$ 2,243,524	\$ 1,277,224	\$ 966,300	

***Pension Expense Deferred Outflows/Inflows.*** For the year ended June 30, 2016, the recognized pension expense was \$242,228.

**CITY OF WINCHESTER, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016**

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

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

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the Winchester Policemen’s and Firemen’s Pension Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Remaining Amortization Period
Net difference between projected and actual earnings on investments	<u>\$ 107,376</u>	-0-	4 years
Total	<u>\$ 107,376</u>		

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Changes due to assumptions and experience losses (gains) are amortized over the average remaining service period of active and inactive members (0 years of future service is assumed for inactive members for this calculation).

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Policemen’s and Firemen’s Defined Benefit Pensions will be recognized in pension expense as follows:

<b>Year ending June 30:</b>	
2017	\$ 36,559
2018	36,557
2019	24,330
2020	9,930
2021	-
Thereafter	-

**B - COUNTY EMPLOYEES RETIREMENT SYSTEM**

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

**Plan Description**

Employees working for city, county, and other local governments are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

**Benefits provided**

CERS provides retirement, health insurance, death and disability benefits to Plan members and beneficiaries. Retirement benefits are classified by the Tier in which the member participates. Tier 1 and Tier 2 are defined benefit plans with variations in how the benefits are calculated. Tier 3 is a cash balance plan that includes guaranteed rates of return for member contributions. Tier 3 benefits are based on accumulated contributions and earnings credited to the member’s account.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

**B — COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

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

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

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

Contributions

Required contributions by the employee are based on the Tier:

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the City were as follows:

City 's proportionate share of the net pension liability	
Nonhazardous plan (.081660%)	\$ 3,510,870
Hazardous plan (.90961%)	<u>13,963,426</u>
Total proportionate share	<u>\$17,474,296</u>

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the City's proportion was 0.08166% of the nonhazardous plan and .90961% of the hazardous plan.

For the year ended June 30, 2016, the City recognized pension expense of \$792,495 for nonhazardous members and \$2,382,099 for hazardous members in CERS.

At June 30, 2016, City reported deferred outflows of resources related to pensions from the following sources:

	NonHazardous Plan	Hazardous Plan	Total City	WMU
Differences between expected and actual experience	\$ 29,177	303,278	\$ 332,455	\$ 43,151
Changes in assumptions	354,033	1,206,668	1,560,701	536,606
Changes in proportion & differences between employer contributions & proportionate share of contributions	57,702	139,424	197,126	46,546
Net difference between projected and actual earnings on pension plan investments	31,472	87,689	-	150,725
Contributions subsequent to the measurement date	<u>225,274</u>	<u>938,103</u>	<u>1,163,377</u>	<u>495,670</u>
		\$		
Total	<u>\$ 697,658</u>	<u>2,675,162</u>	<u>\$3,372,820</u>	<u>1,259,698</u>

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

\$1,163,377 reported as deferred outflows of resources related to pensions resulting from City contributions and \$495,670 resulting from WMU contributions subsequent to the measurement date for the 2016 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

<u>Year ended June 30*:</u>	<u>Nonhazardous</u>	<u>Hazardous</u>	<u>Total - City</u>	<u>WMU</u>
2017	\$ 165,052	\$ 379,823	\$ 544,876	\$ 270,143
2018	165,052	379,823	544,876	270,147
2019	78,975	379,823	458,799	130,078
2020	63,318	597,589	660,907	93,644
2021	-	-	-	-
Totals	<u>\$ 472,398</u>	<u>\$ 1,737,059</u>	<u>\$ 2,209,457</u>	<u>\$ 764,012</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

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

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

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

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

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
	6.50%	Rate	8.50%
		7.50%	
City's proportionate share of the net pension liability			
CERS -- NonHazardous	\$ 44,822,181	\$ 35,109,926	\$ 26,792,239
CERS -- Hazardous	\$ 17,873,727	\$ 13,963,477	\$ 10,723,763
Total Net Pension Liabilities			
 WMU Net Pension Liabilities	 \$ 6,628,844	 \$ 5,192,479	 \$ 3,962,359
 CERS -- NonHazardous	 \$ 5,488,878,398	 \$ 4,299,525,565	 \$ 3,280,950,177
CERS -- Hazardous	\$1,964,987,980	\$1,535,105,880	\$1,178,940,804

**Pension plan fiduciary net position**

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

**C — OTHER WMU PENSION PLANS**

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

Also, WMU offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency.

GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. WMU, therefore, does not report these assets and liabilities on its financial statements.

Employee contributions made to the 401k and 457 plans as of June 30, 2016 and 2015 were \$39,323 and \$62,811, respectively. WMU does not contribute to these plans.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE 13 – CONTINGENCIES AND COMMITMENTS**

**A – INDUSTRIAL DEVELOPMENT BONDS**

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

	Origination Date	Maturity Date	Outstanding Balance
Industrial Facility-Leggett & Platt	October 20, 1988	October 1, 2018	\$ 2,400,000
Catalent Pharma Solutions LLC	December 29, 2015	December 20, 2035	\$140,000,000

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

**B - LITIGATION**

In October 2015, the City settled 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 asked the Franklin Circuit Court for a declaration of rights that the City is not responsible for these payments and the Franklin Circuit Court ruled against the City. The Supreme Court of Kentucky has also ruled against all of the City plaintiffs who originally brought the suit.

During FY 2016, the City has paid the payroll liability required by the settlement for the firefighter’s overtime on state-provided incentive pay in the amount of \$800,000, including salaries and wages, pension contributions and legal fees. The accrued interest has yet to be determined.

**NOTE 14 – WMU – LANDFILL POST-CLOSURE COSTS**

In 1992, WMU discontinued its landfill operations and ceased accepting solid waste. Under 401 KAR 47:080, WMU presented a closure plan. The final cap, leachate collection systems, surface water drainage systems, gas vent systems and groundwater monitoring systems have been constructed. On June 4, 1998, the Clark County Fiscal Court entered into a lease agreement with WMU for the rental of county property upon which the County and WMU formerly operated landfills, the term of the lease was for 20 years at \$1 per year. The lease provides provisions for the post-closure monitoring requirements of state and federal law to be provided by WMU. The post-closure costs are allocated 30% WMU and 70% Clark County Fiscal Court. The state and federal monitoring and maintenance regulations must be performed at the site for 30 years after closure. A liability was not recorded on WMU’s general ledger in the year of closure; instead the actual post-closure expenses have been recorded in operations each year. On October 16, 2008, WMU received notice from the Kentucky Division of Waste Management that the site had been released from groundwater monitoring. In applying GASB 18, WMU believes these costs were the most significant of the post-closure expenses. The effect of any remaining projected costs will be offset by the lease agreement with Clark County.

The Division of Waste Management has finished construction of a new wetlands treatment system for treating the landfill leachate at the WMU and Clark County Landfills. With construction of this treatment facility a new Kentucky Pollution Discharge Elimination System (KPDES) Permit was required. Laboratory testing/Monitoring mandates required as part of the conditions of this permit were unexpectedly more stringent than the previous permit resulting in a higher monthly cost for operation.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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>2016</u>	<u>2015</u>
Sekisui	\$ 829,231	\$ 846,392
Alltech	941,335	834,194
The Kroger Company	811,110	734,030
East Clark County WD	293,379	285,793
	<u>\$ 2,875,055</u>	<u>\$ 2,700,409</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 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
2015	113,661	1,302,942	1,253,766	162,837
2016	162,837	1,849,045	1,781,190	230,692

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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**NOTE 17 – FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

In accordance with the guidance in GASB Statement 54, the City has classified ending fund balance based on the availability of funds for expenditure on programs and services. Restricted fund balance reflects funds that are limited to projects funded by federal, state, or local grants (\$14,151) and shared revenues (\$857,636) from the Commonwealth of Kentucky. Committed fund balance includes amounts set aside by the City Commission for special projects (\$592,710) and capital acquisitions (\$2,157,585). Assigned fund balance includes balances (\$551,845) held by a third-party administrator to pay future employee health care claims and amounts (\$838,600) that have been appropriated in the City's 2017 budget.

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

The City received \$8,153 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 2016, the City spent \$26,125.

**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 2016.

Winchester/Clark County Planning & Zoning	\$ 7,000
Winchester/Clark County Parks & Recreation	271,300
Clark County/Winchester Heritage Commission	12,000
Winchester/Clark County Recreation	57,000
Winchester/Clark County Industrial Development Authority	118,000
Winchester/Clark County Board of Adjustment	1,500
Clark County GIS	87,900
Total Contributions	<u>\$ 554,700</u>

**NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS**

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

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

*Plan Description—Policemen’s & Firemen’s Pension Fund.* The Health Reimbursement Account added in 2004 is paid directly by the City based on actual costs incurred by the retirees. Therefore, any liability associated with that benefit has not been recognized in the actuarial analysis of the service-related pension benefits and is funded on a pay-as-you-go approach. During the year ended June 30, 2016, the City paid \$5,232 for these OPEB benefits. The City has not determined the net OPEB obligation in accordance with GASB Statement No. 45.

*Plan Description—CERS OPEB.* Members become eligible to receive the health insurance benefit depending on the hire date, Tier in which they participate, and type of service. Health insurance benefits are not included in the inviolable contract which protects service benefits. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

	NONHAZARDOUS MEMBERS		HAZARDOUS MEMBERS	
Tier 1	Participation before 7/1/2003	Based on % for each year of service	Participation before 7/1/2003	Based on % for each year of service, but includes coverage for spouse & dependent insurance
	Participation after 7/1/2003	Requires 10 years of service; \$10 per month for each year of earned service	Participation after 7/1/2003	Requires 10 years of service; \$15 per month for each year of earned service; includes spouse & dependent coverage
Tier 2	Participation after 9/1/2008	Requires 15 years of service for eligibility	Participation after 9/1/2008	Requires 15 years of service for eligibility; includes coverage for spouse & dependents
	Benefit	\$10 per month for each year of service; adjusted by 1.5% annually	Benefit	\$15 per month for each year of service; adjusted by 1.5% annually; \$10 per month for each year for surviving spouse; includes coverage for spouse & dependents
Tier 3	Participation after 1/1/2015	Requires 15 years of service for eligibility	Participation after 1/1/2015	Requires 15 years of service for eligibility; includes coverage for spouse & dependents
	Benefit	\$10 per month for each year of service; adjusted by 1.5% annually	Benefit	\$15 per month for each year of service; adjusted by 1.5% annually; \$10 per month for each year for surviving spouse; includes coverage for spouse & dependents

*Funding Policy.* Employees working for city, county, and other local governments are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

For the year ended June 30, 2016, KRS established a contribution rate of 4.64% for nonhazardous OPEB and 12.69% for hazardous OPEB. During the year ended June 30, 2016, the City contributed \$84,160 for nonhazardous duty OPEB and \$576,812 for hazardous duty OPEB for a total of \$660,973 from the City to the CERS OPEB plan. WMU contributed \$134,813 for OPEB to the CERS nonhazardous plan.

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

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

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

<b>Describe</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Nonhazardous OPEB:</b>			
Required Contribution Rate	4.64%	4.92%	5.15%
Required Contribution	\$ 84,160	\$ 84,951	\$ 86,949
Actual Contribution	84,160	84,951	86,949
Percentage of Required	100.00%	100.00%	100.00%
<b>Hazardous OPEB:</b>			
Required Contribution Rate	12.69%	13.58%	13.93%
Required Contribution	\$ 576,812	\$ 644,702	\$ 650,287
Actual Contribution	576,812	644,702	650,287
Percentage of Required	100.00%	100.00%	100.00%
<b>WMU Nonhazardous:</b>			
Required Contribution Rate	4.64%	4.92%	5.15%
Required Contribution	\$ 134,813	\$ 139,608	\$ 138,978
Actual Contribution	134,813	139,608	138,978
Percentage of Required	100.00%	100.00%	100.00%

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

The City and Catalent Pharma Solutions, LLC entered into several agreements during the year. These agreements are in connection with the City of Winchester, Kentucky Industrial Building Revenue Bonds Series 2015 (Bonds). The Bonds will be used for the Catalent Pharma Solutions, LLC Project expansion (Project). The City entered into an In-Lieu of Tax Payment Agreement (Agreement) and a Lease agreement (Lease) with Catalent Pharma Solutions, LLC. (Catalent).

With the issuance of the Bonds, the Project will be conveyed to the City and leased back to Catalent, resulting in the Project being exempt from property taxes. Under the Agreement, Catalent will make payments over a 20 year period, (2016 thru 2035 the term of the Bonds), ranging from \$315,725 to \$361,427.

The Agreement specifies an additional amount due if Catalent does not meet job quota goal. If the job quota goal is not met by the year 2023, then the additional amount due would range be \$2,170. The additional amount increases each year until the job quota is met, with the maximum yearly amount being \$3,897 (year 2035).

**NOTE 22 – SUBSEQUENT EVENTS**

The city has evaluated all subsequent events through January 5, 2017 the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF WINCHESTER, KENTUCKY**  
**SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES**  
**For the Year Ended June 30, 2016**

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

**SCHEDULE OF NET PENSION LIABILITY**

Total pension liability	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	1,277,224	1,364,940	1,472,928
Net pension liability	<u>\$ 966,300</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>

Plan Fiduciary Net Position as a % of Total Pension Liability	<u>56.9%</u>	<u>65.3%</u>	<u>69.2%</u>
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Note: There is no covered payroll for this plan

**SCHEDULE OF CONTRIBUTIONS**

Actuarially determined contribution	\$ 215,517	\$ 168,897	\$ 145,214
Actual employer contributions	15,000	10,000	5,000
Contribution deficiency (excess)	<u>\$ 200,517</u>	<u>\$ 158,897</u>	<u>\$ 140,214</u>

Note: There is no covered payroll for this plan

**Annual Money-Weighted Rate of Return**

Annual money-weighted rate of return, net of investment expense	1.16%	-0.10%	0.94%
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	07/012016
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Amortization Period	Five years, open
Actuarial Asset Valuation Method	Market Value as reported by PNC Bank, Kentucky, Inc., with adjustments as reported by City Treasurer
Actuarial Assumptions:	
Discount Rate	3.59%
Inflation	2%
Other	RP-2014 General Mortality Tables Adjusted to 2006

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

**CITY OF WINCHESTER, KENTUCKY**  
**COST-SHARING DEFINED PENSION TRUST SCHEDULES & NOTES**  
**For the Year Ended June 30, 2016**

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

	<u>2016</u>	<u>2015</u>
<b>NONHAZARDOUS PLAN</b>		
Proportionate share percentage	0.816600%	0.079420%
Proportionate share amount	\$ 3,510,870	\$ 2,576,678
Covered Payroll	\$ 1,883,734	\$ 1,818,523
Collective share of NPL as % of payroll	186.4%	141.7%
 Plan's fiduciary net position as a percentage of total pension liability	 59.97%	 66.80%
<b>HAZARDOUS PLAN</b>		
Proportionate share percentage	0.909610%	0.896322%
Proportionate share amount	\$ 13,963,426	\$ 10,772,225
Covered Payroll	\$ 4,804,031	\$ 4,765,643
Collective share of NPL as % of payroll	290.66%	226.04%
 Plan's fiduciary net position as a percentage of total pension liability	 57.52%	 63.46%
 Proportionate share (amounts)		
Nonhazardous	\$ 3,510,870	\$ 2,576,678
Hazardous plan	13,963,426	10,772,225
Total proportionate share	<u>\$ 17,474,296</u>	<u>\$ 13,348,903</u>

**TABLE 2--CONTRIBUTIONS**

	<u>2016</u>	<u>2015</u>
<b>NONHAZARDOUS PLAN</b>		
Required Contributions	\$ 243,800	\$ 344,179
Contributions Recognized by Plan	243,800	344,179
Difference	<u>\$ -</u>	<u>\$ -</u>
 Covered Payroll	 \$ 1,883,734	 \$ 1,818,523
Contributions as Percentage of Payroll	12.94%	18.93%
 <b>HAZARDOUS PLAN</b>		
Required Contributions	\$ 983,018	\$ 1,620,719
Contributions Recognized by Plan	983,018	1,620,719
Difference	<u>\$ -</u>	<u>\$ -</u>
 Covered Payroll	 \$ 4,804,031	 \$ 4,765,643
Contributions as Percentage of Payroll	20.46%	34.01%

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

**CITY OF WINCHESTER, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

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**COUNTY EMPLOYEES RETIREMENT SYSTEM:**

Actuarial Methods and Assumptions:

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

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	28 Years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

Changes of Benefit Terms -

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

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

Changes of assumptions:

The assumed investment rate was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

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

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

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

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF WINCHESTER, KENTUCKY**  
**COMBINING BALANCE SHEET — GOVERNMENTAL FUNDS**  
**June 30, 2016**

	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
<b>ASSETS:</b>												
Cash and Cash Equivalents	\$ 856,019	\$ 2,742	\$ 2	\$ 38,254	\$ 200,851	\$ 21,218	\$ 239,568	\$ 39,220	\$ 50,018	\$ 57,052	\$ 17,011	\$ 1,521,956
Accounts Receivable	0	0	0	0	0	0	0	0	12,893	0	0	12,893
Due from Other Funds	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL ASSETS</b>	<b>\$ 856,019</b>	<b>\$ 2,742</b>	<b>\$ 2</b>	<b>\$ 38,254</b>	<b>\$ 200,851</b>	<b>\$ 21,218</b>	<b>\$ 239,568</b>	<b>\$ 39,220</b>	<b>\$ 62,911</b>	<b>57,052</b>	<b>\$ 17,011</b>	<b>\$ 1,534,849</b>
<b>LIABILITIES:</b>												
Accounts Payable	\$ 1,125	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,454	\$ 2,860	\$ 7,439
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	12,893	0	0	12,893
<b>TOTAL LIABILITIES</b>	<b>1,125</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,893</b>	<b>3,454</b>	<b>2,860</b>	<b>20,332</b>
<b>FUND BALANCES:</b>												
Restricted Fund Balance	854,894	2,742	2	0	0	0	0	0	50,018	0	14,151	921,806
Committed Fund Balance	0	0	0	38,254	200,851	21,218	239,568	39,220	0	53,598	0	592,710
<b>TOTAL FUND BALANCES</b>	<b>854,894</b>	<b>2,742</b>	<b>2</b>	<b>38,254</b>	<b>200,851</b>	<b>21,218</b>	<b>239,568</b>	<b>39,220</b>	<b>50,018</b>	<b>53,598</b>	<b>14,151</b>	<b>1,514,516</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 856,019</b>	<b>\$ 2,742</b>	<b>\$ 2</b>	<b>\$ 38,254</b>	<b>\$ 200,851</b>	<b>\$ 21,218</b>	<b>\$ 239,568</b>	<b>\$ 39,220</b>	<b>\$ 62,911</b>	<b>57,052</b>	<b>\$ 17,011</b>	<b>\$ 1,534,849</b>

**CITY OF WINCHESTER, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

	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	\$ 135,840	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 135,840
Intergovernmental	409,376	8,153	0	500	0	5,956	26,796	0	752,523	40,500	151,290	1,395,094
Investment Income	5,555	79	83	621	4,719	121	1,604	205	0	280	89	13,357
Other	0	0	423	540	139,605	23,827	29,600	17,354	150,018	0	0	361,367
<b>TOTAL REVENUES</b>	<b>414,931</b>	<b>8,232</b>	<b>136,347</b>	<b>1,661</b>	<b>144,324</b>	<b>29,904</b>	<b>58,000</b>	<b>17,559</b>	<b>902,541</b>	<b>40,780</b>	<b>151,379</b>	<b>1,905,659</b>
EXPENDITURES:												
City Commission	0	0	0	0	0	0	0	0	0	0	0	0
Main Street Department	0	0	0	1,374	56,751	0	0	0	0	0	2,460	60,584
Administration	0	0	0	0	0	0	0	0	0	0	0	0
Planning	0	0	0	5,436	0	0	0	0	0	0	0	5,436
Conservancy	0	0	0	0	0	0	0	0	0	0	0	0
Police Department	0	0	0	0	0	20,159	13,735	0	0	19,870	4,830	58,593
Fire Department	0	0	0	0	0	0	0	4,536	0	0	0	4,536
EMS	0	0	0	0	0	0	0	0	0	0	140,000	140,000
Public Works	391,230	26,125	0	0	0	0	0	0	0	0	2,860	420,215
Intergovernmental	0	0	136,347	0	0	0	0	0	58,391	0	0	194,738
Capital	46,751	0	0	0	0	0	28,392	0	853,968	0	0	929,111
<b>TOTAL EXPENDITURES</b>	<b>437,982</b>	<b>26,125</b>	<b>136,347</b>	<b>6,809</b>	<b>56,751</b>	<b>20,159</b>	<b>42,127</b>	<b>4,536</b>	<b>912,359</b>	<b>19,870</b>	<b>150,150</b>	<b>1,813,215</b>
Excess (Deficit) of Revenues over Expenditures	(23,050)	(17,893)	0	(5,148)	87,574	9,746	15,873	13,023	(9,818)	20,910	1,229	92,445
OTHER FINANCING SOURCES (USES):												
Operating transfers in	0	0	0	0	0	0	0	0	59,836	0	0	59,836
Operating transfers out	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>59,836</b>	<b>0</b>	<b>0</b>	<b>59,836</b>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(23,050)	(17,893)	0	(5,148)	87,574	9,746	15,873	13,023	50,018	20,910	1,229	152,281
Fund Balance June 30, 2015	877,944	20,634	2	43,403	113,277	11,472	223,696	26,198	0	32,688	12,922	1,362,236
Fund Balance June 30, 2016	\$ 854,894	\$ 2,742	\$ 2	\$ 38,254	\$ 200,851	\$ 21,218	\$ 239,568	\$ 39,220	\$ 50,018	\$ 53,598	\$ 14,151	\$ 1,514,516

**CITY OF WINCHESTER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>HOUSING &amp; URBAN DEVELOPMENT</u>			
Passed Through Commonwealth of Kentucky: Community Development Block Grant	14.228	09-066	\$ 432,334
<b>TOTAL HOUSING &amp; URBAN DEVELOPMENT</b>			<b><u>432,334</u></b>
<u>U.S. DEPT. OF JUSTICE</u>			
Federal Forfeiture	16.922	N/A	42,127
Software	16.738		11,798
<b>TOTAL U.S. DEPT. OF JUSTICE</b>			<b><u>53,925</u></b>
<u>EPA</u>			
Passed Through Commonwealth of Kentucky: Pollution Control	66.460	C9994861-04	58,391
<b>TOTAL EPA</b>			<b><u>58,391</u></b>
<u>HOMELAND SECURITY</u>			
AFG Aerial Apparatus	97.044		250,000
<b>TOTAL HOMELAND SECURITY</b>			<b><u>250,000</u></b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b><u>\$ 794,650</u></b>

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

**NOTE 1- BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Winchester, Kentucky under the programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of operations of the City of Winchester, Kentucky, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

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

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

**NOTE 3 – MATCHING**

The City expended matching expenditures of \$59,836 for the Homeland Security Grant Program during the year. The matching expenditures are not included in total of federal expenditures since these were from local sources and not federal sources.

## **SINGLE AUDIT REPORTS**

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

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MEMBERS:

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OF CERTIFIED PUBLIC ACCOUNTANTS

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PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
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LAURENCE T. SUMMERS  
1961-1992

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

To the City Commissioners  
Winchester, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Winchester, Kentucky (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 5, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 matter 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*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
January 5, 2017

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

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

To the City Commissioners  
Winchester, KY

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

We have audited City of Winchester, Kentucky's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

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

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

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

In our opinion, the City of Winchester, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control over Compliance**

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

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

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

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

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
January 5, 2017

**CITY OF WINCESTER, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Section 1 - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued - unmodified

Internal control over financial reporting:

Material weakness(es) identified?                  yes      X  no

Significant deficiencies identified  
that are not considered to be material  
weakness?                                          yes      X  none reported

Noncompliance material to financial  
statements noted?                                  yes      X  no

**Federal Awards**

Internal control over majority programs:

Material weakness(es) identified?                  yes      X  no

Significant deficiencies identified  
that are not considered to be material  
weakness(es)?                                      yes      X  none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

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

Auditee qualified as low-risk auditee?                  yes      X  no

**CITY OF WINCHESTER, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Section II – Financial Statement Findings**

There were no findings this year.

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

There were no findings this year.

**CITY OF WINCHESTER, KENTUCKY  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

There were no findings in the prior year.