

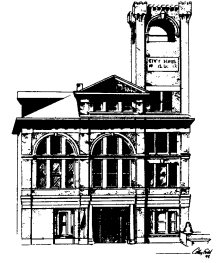
CITY OF WINCHESTER
AUDITED BASIC FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTARY DATA
AND INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2019

**CITY OF WINCHESTER, KENTUCKY
JUNE 30, 2019**

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City of Winchester



Finance Department

Established 1793

January 17, 2020

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

Dear Mayor, City Commissioners, and Residents of Winchester:

We are pleased to submit the annual audited Financial Statements for the fiscal year ended June 30, 2019. These Financial Statements were prepared in conformance with *Generally Accepted Accounting Principles* (GAAP) and the reporting standards of the *Governmental Accounting Standards Board* (GASB).

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

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

The independent accounting firm of Summers, McCrary, and Sparks P.S.C., Certified Public Accountants, has reasonable assurance that these financial statements for the fiscal year ended June 30, 2019 are free of any material misstatement. Requests for Single Audit Reports should be directed to the City's Finance Department.

PROFILE OF GOVERNMENT

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

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

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

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

WMU is a municipal utility enterprise fund separate from the City and which has been separately audited. A full discussion of WMU's financial activities can be found in that audit. WMU's audit was prepared by Summers, McCrary, and Sparks, PSC and was accepted by the utility commission on December 5, 2019.

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

BUSINESS INCENTIVE PROJECTS

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

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

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

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

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

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

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

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

KEFDA projects (continued)

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

TAX INCREMENT FINANCING

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

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

The Winchester Plaza renovations were completed about seven years ago. Business activity in the area continues to thrive. The 2013 payroll taxes decreased when Amazon moved into their permanent building. Winchester Plaza is an improved anchor for our community.

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

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

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

REVENUE SHARING

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

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

On December 2, 2014, by Ordinance No. 18-2014 the inter-local agreement was amended to add three elementary schools. These three rural schools, Pilot View Elementary, Trapp Elementary, and Providence Elementary were closed during 2013 and absorbed into the existing schools within the City limits. The effective date for the elementary schools is July 1, 2014 for three years. The elementary school revenue sharing is based on \$53,267 average payroll taxes. In year one, the City/County share is 50%. In year two it is 60/40 percent. In year three it is 67/33 percent. This part of the agreement ended June 30, 2017.

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

REVENUE SHARING FISCAL COURT	
2012	\$128,019
2013	\$150,969
2014	\$238,306
2015	\$249,996
2016	\$286,620
2017	\$352,058
2018	\$355,602
2019	\$307,312
Total Payments to Date	\$2,048,882

INDUSTRIAL PARK

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

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

STATUS OF GRANTS

The City of Winchester vigorously pursues grant opportunities to aid in the development and improvement of its services, equipment, and infrastructure. During FY2019, the City applied for several grants. Listed below is the status of grant applications.

1. CDBG – Lincoln Street Redevelopment Project, \$1,000,000 approved.
2. FEMA Assistance to Firefighters Grant, SAFER Grant three additional personnel, \$359,018, approved
3. KBEMS \$10,000, pass through the County.
4. State Fire Commission Grant \$30,172 , pending
5. US Office of Homeland Security Assistance to Firefighters Grant, Exhaust Capturing System (95/5 match) \$180,000, approved
6. KOHS \$88,420 for Chemical Identifier and Monitor

OTHER DEVELOPMENT

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

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

The City finished the Depot Street Project six years ago. The renovated street has greatly enhanced the area. The City applied for grant funds and a TEA-21 grant for the rehabilitation of the Sphar building in the downtown area (next to the Depot Street/Farmer's Market restoration) was approved. The TEA-21 grant was awarded for \$1 million. We will receive additional funding from the Clark County Fiscal Court in the form of a \$500,000 CDBG grant (Resolution No. R2016-13 approved an agreement with the Clark County Fiscal Court for a CDBG Grant of \$500,000 for the Sphar Building Rehabilitation /Stabilization Project). The City and the Fiscal Court will each contribute \$50,000. This building is over 130 years old and will be re-purposed for a Winchester and Clark County Welcome Center. The building was purchased for \$100,000 from the Greater Clark Foundation (which will provide another \$250,000). This project has been put on hold.

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

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

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

BONDS

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

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

OTHER INFORMATION

Retirements

The City recognized the following retirements during Fiscal Year 2019:

1. Debbie Bailey, City Treasurer, 30 years
2. Beverly Ackerman, PW Admin Asst., 17 years
3. Michael Perkins, Police Officer, 20 years
4. Howard Frick, Police Captain, 17 years
5. David Aldridge, Police Officer, 19 years
6. Joseph Riley, Police, 17 years
7. Timothy Conner, Police Dept Maintenance, 16 years
8. Richard White, Public Works, 16 years
9. Jeannie Gwynn, Communications Officer, 28 years
10. Larry Bowling, Firefighter, 23 years

Elected Officials

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

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

Respectfully submitted,

Michelle L. Lucas
Michelle L. Lucas
Interim Finance Director

INDEPENDENT AUDITOR'S REPORT

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners
City of Winchester, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and capital equipment fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13-27, the single employer defined pension trust schedules and notes on page 91, and the cost-sharing defined pension trust and other postretirement employee benefit plan schedules and notes on pages 92-95 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020, 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

Summers, McCrary & Sparks, PSC

Winchester, Kentucky
January 17, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

The management team of the City of Winchester presents this Management Discussion and Analysis to outline the financial highlights and provide their analysis of the financial reports by explaining changes in the financial data for the year ended June 30, 2019 (FY 2019). This narrative is intended to disclose any known significant events or decisions that affect the financial condition of the City. In addition, supplementary information is presented in other sections of this report that we hope will help our citizens understand the City's operations.

EXECUTIVE SUMMARY

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

Some of the key financial indicators for FY 2019 include the following:

- The City's net financial position continued to decline as the costs of postemployment benefits add nearly \$4 million each year to the City's costs of operations. Net financial position decreased by \$4.2 million as of June 30, 2019.
- The city financed an ambulance remount in FY19 with a local bank loan of \$119,800.
- The fund statements present financial information that is similar to the budget planning reports. General Fund reported a total fund balance of \$5.4 million with \$.3 million committed to the self-insurance funds.
- Unassigned fund balance in the General Fund was \$5.1 million as of June 30, 2019, which represents 27.7% of General Fund expenditures and provides a reserve for future budget needs. This ratio improved over last year's ratio of 21.2%
- General Fund balance declined \$1.1 million for FY 2019.
- The Capital Equipment fund uses a portion of the occupational license fee to finance capital improvements projects for the City. During FY 2019, this fund provided resources for \$443,000 of capital asset purchases and \$354,000 in debt retirement. Including the new lease of \$119,800, the City's outstanding long-term capital leases were reduced to \$1.7 million from \$1.9 million in FY 2019.

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

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

The City makes every effort to hire and retain qualified people who deliver services to our citizens. To insure these services, employee wages and benefits are a vital component of the city's financial operations. Personnel costs include wages, taxes, retirement, and insurance. The City granted a 3% cost-of-living (COLA) for FY2019. The City's self-insured employee health

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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.

Employer contribution rates are mandated by the Board of Trustees for the CERS-County Employees Retirement System. These rates are what the City pays on employee wages to CERS which is administered by the Kentucky Retirement System. In 2019, the Kentucky General Assembly imposed a 12% cap on contribution rate increases for local government employers participating in CERS to allow a phase-in of the significant increases proposed by the 2017 Actuarial Study for CERS beginning in FY2019. In 2019, an experience study indicated that mortality assumptions should be revised which will likely increase rates further in FY2021. The 12% cap should still allow local employers to pay off these two changes over five – six years and stabilize the employer contribution rates as well as the unfunded liability. The table below shows the trend in employer contribution rates over the last five years:

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

These two statements divide the City of Winchester into two types of activities. Governmental activities 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.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

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

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

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

FINANCIAL HIGHLIGHTS

Governmentwide Analysis

Statement of Net Assets

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

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

The following table summarizes the Statement of Net Position as of June 30, 2019 and 2018:

	Governmental	Activities Restated
	<u>2019</u>	<u>2018</u>
Current and Other assets	\$ 9,818,827	\$ 10,136,640
Capital assets	15,158,425	16,044,473
Total Assets	<u>24,977,252</u>	<u>26,181,113</u>
Deferred Outflows of Resources		
Pensions	8,007,024	9,738,514
OPEB	3,001,620	3,753,668
Total Deferred Outflows of Resources	<u>11,008,644</u>	<u>13,492,182</u>
Long-Term debt outstanding	1,667,331	1,901,701
Net pension liabilities	28,201,794	26,335,027
Net OPEB liabilities	7,899,059	9,153,935
Other liabilities	1,872,103	1,515,628
Total Liabilities	<u>39,640,287</u>	<u>38,906,291</u>
Deferred Inflows of Resources		
Pensions	1,567,218	1,872,187
OPEB	1,685,424	574,708
Total Deferred Inflows of Resources	<u>3,252,642</u>	<u>2,446,895</u>
Net Position		
Net investment in capital assets	13,491,094	14,142,772
Restricted	219,866	1,211,233
Unrestricted	(20,617,993)	(17,033,897)
Total Net Position	<u>\$ (6,907,034)</u>	<u>\$ (1,679,892)</u>

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

Current and Other Assets decreased approximately \$1.2 million. Capital assets increased \$675,000. Part of this increase includes the new police cars and projects shown below.

1. Maple/Boone storm water projects (finished FY 2019)
2. Fire Training Tower Addition (finished FY2019)
3. Soccer Park (finished FY 2019)
4. Recreational Trail Project
5. Lykins Park Trail (finished FY 2019)

The liability for the Winchester single-employer plan for the Policemen's and Firemen's Defined Benefit plan also increased because as the 2019 assumption changes are phased into the employer contributions. The amounts reported on the statement of net position include amounts for both the cost-sharing County Employees Retirement System plan and the city's single-employer Policemen's and Firemen's Pension Fund. The following table outlines the components of these balances as of June 30, 2019, by plan:

<u>Describe</u>	<u>CERS</u>	<u>P&F</u>	<u>Total City</u>	<u>WMU</u>
Pension Plans:				
Deferred Outflows	\$ 6,116,614	\$ 58,346	\$ 6,174,960	\$1,937,609
Deferred Inflows	1,567,218	-	1,567,218	559,526
Net Pension Liability	26,851,732	1,350,062	28,201,794	7,548,324
Pension Expense	4,934,244	256,105	5,190,348	985,752
OPEB Plans:				
Deferred Outflows	\$ 2,260,678	\$ -	\$ 2,260,678	\$ 603,099
Deferred Inflows	1,685,424	-	1,685,424	412,584
Net OPEB Liability	7,899,059	-	7,899,059	2,200,441
OPEB Expense	1,348,830	-	1,348,830	117,103

The City's unrestricted net position continues to reflect the impact of the city's proportionate share of net pension liabilities. In FY19, management noted that the pension liabilities were overstated in FY18 and has restated those balances by \$6.5 million which decreased net position for FY18. The deficit position in net position reflects the city's responsibility to provide future resources to fund the pension liabilities. It is important to note that these pension and OPEB liabilities are currently being amortized over a closed 30-year period and this amortization is included in the annual actuarially determined contribution rates established by the Kentucky Retirement System Board of Trustees. As we noted earlier, the Ky General Assembly has approved a phase-in of contribution rates for local government employers that limits annual increases to 12% over the next 5 years to mitigate the short-term impact of the significant increases imposed for FY19. The City is not required to provide additional resources to retire this liability.

Statement of Activities

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

The following table summarizes the Statement of Activities for the City for 2019 and 2018, using the traditional operating format:

	Governmental Activities	
		Restated
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 1,343,370	\$ 1,230,054
Grant funding	2,212,359	2,625,144
General revenues:		
Property taxes	2,523,413	2,552,499
License fees and permits	1,125,457	1,164,928
Payroll taxes	9,379,105	9,112,057
Insurance premium tax	2,551,579	2,490,735
Transient room tax	139,675	145,193
Other taxes	119,022	116,404
Interest and investment earnings	221,038	165,106
Parking fines	570	1,390
Other local revenues	108,198	216,228
Total Revenues	<u>19,723,786</u>	<u>19,819,738</u>
Program Expenses:		
General government	4,405,767	4,302,684
Public Protection		
Dispatch	1,308,666	1,312,354
Police	5,909,262	5,449,681
Fire	6,850,883	6,025,293
EMS	3,439,012	2,951,174
Public Services	1,942,143	1,892,985
Intergovernmental services	1,026,909	1,042,120
Interest on long-term debt	68,285	76,124
Total Expenses	<u>24,950,927</u>	<u>23,052,415</u>
special items	(5,227,141)	(3,232,677)
Loss on disposal of fixed assets	-	(26,237)
Net increase (decrease) in net position	<u>\$ (5,227,141)</u>	<u>\$ (3,258,914)</u>

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

FY18 departmental expenses have been restated to reflect the correction of the prior period calculations for CERS pension expense. Total Revenues decreased \$95,952, mostly because there were fewer federal grant awards in FY19 than in FY18 (\$412,785). Payroll taxes increase \$267,048 as the local economy continued to improve. Other revenues had modest changes.

Total expenses increased \$1,898,512, mostly because of CERS, medical and dental insurance and workers compensation insurance.

Analysis of Governmental Funds

The following table summarizes the Governmental Funds Balance Sheet for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Assets:		
Cash and Cash Equivalents	\$ 7,505,260	\$ 7,851,851
Accounts Receivable	2,313,567	2,284,789
Due from Other Funds	134,092	134,411
Prepaid Expenses	3,584	
Total Assets	\$ 9,956,503	\$ 10,271,051
Liabilities:		
Accounts Payable	\$ 96,288	\$ 97,115
Due to Other Funds	134,092	134,411
Accrued TIF Incentive Payable	123,149	120,278
Accrued Payroll & Related Liabilities	463,193	286,682
Total Liabilities	816,722	638,486
Deferred Inflows of Resources- Unavailable Property Taxes	22,964	16,214
Fund Balances:		
Restricted	1,238,465	1,211,235
Committed	2,802,150	2,563,726
Assigned	6,103	2,167,497
Unassigned	5,066,516	3,673,892
Total Fund Balances	9,113,234	9,616,350
Total Liabilities & Fund Balance	\$ 9,952,920	\$ 10,271,051

Cash and Cash Equivalents decreased \$346,592 for operating expenses incurred in FY 19.

Current Liabilities are relatively unchanged from the prior year.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

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

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

Restricted funds increased \$27,230 mainly from the Main Street Fund.

Committed funds increased \$238,424 mainly from the Capital Equipment Fund. Capital Equipment Fund increased \$650,012 from excess property tax revenue over the current year capital expenditures. The committed balance for health insurance decreased \$359,810 because an increased in medical claims during the year. There were minimal changes in other nonmajor funds.

Assigned Funds decreased \$2,161,394 because no assignment was necessary to recognize the portion of the 2019 fund balance that was used to finance appropriations in the FY20 budget which anticipates a surplus. The remaining assignment of \$6,103 reflects amounts set aside for the Splash Pad project.

Unassigned Fund Balance (General Fund) increased \$1,461,883 with the change in the assignment for the subsequent year’s budget and a operating deficit of \$1,059,321 for FY19.

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

The Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances show revenues and expenses using the modified accrual basis of accounting. There are several significant differences, including depreciation expenses (\$1,561,000) instead of capital outlay (\$675,630) and principal payments (\$354,170), and accrued pension and OPEB expenses (\$5,227,687) instead of cash contributions (\$2,396,614). The FY19 change in governmental fund balance was a decrease of \$339,699 while the decrease in governmentwide net position for governmental activities was \$4,185,862.

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2019 and 2018:

	Governmental Funds	
	2019	2018
REVENUES:		
Taxes	\$ 14,706,041	\$ 14,400,676
Licenses & Permits	1,125,457	1,164,928
Charges for Services	1,343,371	1,230,054
Fines	570	1,390
Intergovernmental	2,212,361	2,625,144
Investment Income	221,038	165,106
Other	108,196	216,226
TOTAL REVENUES	19,717,035	19,803,524
General Government	3,355,341	3,264,998
Public Safety:		
Dispatch	1,092,529	1,088,132
Police	4,556,823	4,279,339
Fire	4,960,204	4,525,766
EMS	2,635,566	2,251,693
Public Works	1,654,353	1,603,844
Intergovernmental	1,136,911	1,042,120
Capital	525,768	2,449,881
Debt service principal	354,170	404,737
Debt service interest	68,285	76,124
TOTAL EXPENDITURES	20,339,949	20,986,634
Excess (Deficit) of Revenues over Expenditures	(622,915)	(1,183,110)
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term borrowing	119,800	
Gain/loss on sale of capital assets		4,500
Operating transfers in		115,004
Operating transfers out		(115,004)
TOTAL OTHER FINANCING SOURCES (USES)	119,800	4,500
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(503,115)	(1,178,610)
Fund Balance, beginning	9,616,350	10,794,960
Fund Balance, ending	\$ 9,113,235	\$ 9,616,350

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

The difference between revenues and expenditures shows how total fund balance has changed since last year. Total governmental fund balances decreased \$503,115. General Fund decreased because of an operating deficit of \$1,128,581 as wages, retirement, medical insurance and other employee benefits continue to out pace general fund revenues, Capital Equipment increased \$650,012 as property taxes exceeded capital expenditures in the FY 19, Mun and the nonmajor funds ended the fiscal year with a surplus of \$74,955.

Payroll taxes contributed to the available resources with an increase of \$267,048 in FY19 and charges for services increased \$113,317 mainly from continued employee growth and from EMS revenue. Intergovernmental revenues declined \$428,627 as the City had less federal and state grant activity in FY 19.

Expenditures decreased \$646,685 across all governmental funds, mainly because of less capital expenditures in FY 19.

Capital and Operating Activities

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

FY 2019 Governmental Funds			
	Capital	Operating	Total
Revenues	\$ 1,563,104	\$ 18,273,730	\$ 19,836,835
Expended	(879,938)	(19,460,011)	(20,339,949)
Net	<u>\$ 683,166</u>	<u>\$ (1,186,281)</u>	<u>\$ (503,115)</u>
FY 2018 Governmental Funds			
	Capital	Operating	Total
Revenues	\$ 2,145,514	\$ 17,662,510	\$ 19,808,024
Expended	(2,854,618)	(18,132,016)	(20,986,634)
Net	<u>\$ (709,104)</u>	<u>\$ (469,506)</u>	<u>\$ (1,178,610)</u>

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance) and capital grants from federal, state, and county grant awards. The revenues in the capital decreased due to less federal and state grant funds in FY 19

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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 34 with reports for the General Fund and Capital Equipment Fund, a major special revenue fund.

Actual General Fund revenue fell short of budget estimates by about \$381,000. Taxes estimates exceeded budget by \$194,000.

These budget amounts were very conservative because projecting revenues are difficult due to several factors (economy, jobs, weather, etc.). Charges for services fell short of budget by \$598,000.

Most of the General Fund under-budget revenue difference (under budget by \$381,680) can be attributed to:

1. Ad Valorem Tax under budget by \$36,095
2. Payroll Tax under budget \$110,821
3. Columbia Gas Franchise under budget \$4,216
4. Kentucky Utility Franchise under budget \$40,276
5. Reimbursable Grant Income under budget \$500,000

Public Works expenses came in under budget because Sphar Building project was not completed. At year end, reimbursable grants revenue and expenses are transferred to federal, state, and local grant financial statements.

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

In the Capital Equipment Fund, Intergovernmental Income came in under budget by about \$76,669.

Capital Equipment Fund expenses were under budget by \$439,291.

1. Special Projects was under budget. The Splash Pad was budgeted for \$250,000 but nothing was spent.
2. The Stormwater project was under budget but \$68,539, mainly the projects did not proceed as expected.

In the Municipal Aid Fund, Intergovernmental Income came in under budget by about \$359,118. Municipal Aid Fund expenses were under budget by \$429,036, mainly because special project was budgeted for \$372,000 but nothing was spent.

The City approved one 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.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

The first budget amendment added the following:

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

LONG-TERM DEBT

The City finances a variety of equipment purchases with capital lease financing. During FY 2019, one lease for \$119,800 was issued to finance additional an ambulance remount. The city retired principal of \$354,170 of the outstanding leases issued in prior years during FY19. More information about long-term debt is explained in Note 8 of the Notes to the Financial Statements.

MAJOR CAPITAL PROJECTS FOR THE YEAR

Capital assets provide an important resource for supporting a variety of governmental programs and services. The City uses local tax revenues as well as federal and state grant funding to help finance critical infrastructure and public property improvements. The following table summarizes the City's governmental capital assets (net of accumulated depreciation) as of June 30, 2019 and 2018.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

	2019	2018
Construction in progress	\$ 671,241	\$ 1,093,746
Land	2,152,683	2,152,683
Buildings	2,569,044	6,040,974
Vehicles	2,044,233	6,813,667
Furniture & fixtures	13,011	23,891
Equipment	1,299,306	2,034,616
Infrastructure	6,408,899	6,470,021
Total Capital Assets, Net	\$ 15,158,417	\$ 24,629,598

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

1. Fulton Road
2. Seventh Street
3. Sphar Building Rehabilitation
4. Community Splash Pad
5. Lincoln Street a CDBG Urban Renewal Project

ECONOMIC CONDITION AND OUTLOOK

The City of Winchester is located 15 miles east of Lexington. The City has experienced residential growth on the west side of Clark County, due to its proximity to the Bypass and the City of Lexington. In the future, the Veteran’s Memorial Parkway 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 3.9% unemployment rate and ended the fiscal year with a 3.9% unemployment rate.

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

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

The City did not approve the maximum allowable real property tax rate for calendar year 2018. The rates were the same as the previous year. The FY2019 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.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

During our FY2019 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2019, a 3% COLA was granted to employees. This was very important to our employees. We are a service organization and retaining qualified employees is essential for public safety and administration.

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

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

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

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

CONTACTING THE CITY'S FINANCIAL TEAM

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

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859-355-1603
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**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WINCHESTER
STATEMENT OF NET POSITION
June 30, 2019

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS:			
Current Assets			
Cash and Cash Equivalents	\$ 7,505,260	\$ 7,505,260	\$ 8,659,241
Restricted Cash and Cash Equivalents	-	-	792,620
Accounts Receivable			
Taxes	1,806,729	1,806,729	-
Accounts, net	91,924	91,924	1,907,793
Intergovernmental	411,330	411,330	-
Other	3,584	3,584	39,434
SDC Receivables	-	-	459,397
Accrued Interest	-	-	13,870
Prepaid Expenses	-	-	552,989
Inventories	-	-	425,939
Total Current Assets	9,818,827	9,818,827	12,851,283
Restricted Assets			
Cash and Cash Equivalents	-	-	21,132,611
Total Restricted Assets	-	-	21,132,611
Noncurrent Assets			
Construction in Progress	671,241	671,241	9,555,241
Land	2,152,683	2,152,683	1,519,050
Net Capital Assets	12,334,501	12,334,501	106,714,964
Total Noncurrent Assets	15,158,425	15,158,425	117,789,255
TOTAL ASSETS	\$ 24,977,252	\$ 24,977,252	\$ 151,773,149
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	\$ 8,007,024	\$ 8,007,024	\$ 1,937,609
OPEB	3,001,620	3,001,620	603,099
Total Deferred Outflows of Resources	\$ 11,008,644	\$ 11,008,644	\$ 2,540,708
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 96,288	\$ 96,288	\$ 1,575,859
Accrued TIF Incentive Payable	123,149	123,149	-
Accrued Payroll & Related Liabilities	463,193	463,193	238,518
Customer Deposits	-	-	126,064
Accrued Interest Payable	-	-	82,496
Incurred but Not Reported Health Claims	418,863	418,863	-
Current Portion of Accrued Sick Leave	21,096	21,096	-
Current Portion of Bonds	-	-	3,895,132
Current portion of Lease Obligations	341,550	341,550	-
Total Current Liabilities	1,464,139	1,464,139	5,918,069
Noncurrent Liabilities			
Noncurrent Portion of Lease Obligations	1,325,781	1,325,781	-
Noncurrent Portion of Bonds	-	-	68,738,478
Noncurrent Portion of Accrued Sick Leave	749,514	749,514	484,505
Net Pension Liability	28,201,794	28,201,794	7,548,324
Net OPEB Liability	7,899,059	7,899,059	2,200,441
Total Noncurrent Liabilities	38,176,148	38,176,148	78,971,748
TOTAL LIABILITIES	\$ 39,640,287	\$ 39,640,287	\$ 84,889,817
DEFERRED INFLOWS OF RESOURCES			
Pensions	\$ 1,567,218	\$ 1,567,218	\$ 559,526
OPEB	1,685,424	1,685,424	412,584
Total Deferred Inflows of Resources	\$ 3,252,642	\$ 3,252,642	\$ 972,110
NET POSITION			
Net Investment in Capital Assets	\$ 13,491,094	\$ 13,491,094	\$ 45,155,646
Restricted			
Restricted for Capital Projects	219,866	219,866	19,264,884
Restricted for Bond Debt Service	-	-	2,527,291
Unrestricted	(20,617,993)	(20,617,993)	1,504,113
TOTAL NET POSITION	\$ (6,907,034)	\$ (6,907,034)	\$ 68,451,934

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (4,405,767)	\$ 159,342	\$ 60,299	\$ -	\$ (4,186,126)	\$ (4,186,126)	
Public Safety:							
Dispatch	(1,308,666)	-	650,248	-	(658,418)	(658,418)	
Police	(5,909,262)	7,040	229,963	-	(5,672,259)	(5,672,259)	
Fire	(6,850,883)	-	274,644	-	(6,576,239)	(6,576,239)	
EMS	(3,439,012)	1,171,291	505,817	-	(1,761,904)	(1,761,904)	
Public Works	(1,942,143)	5,697	-	491,388	(1,445,058)	(1,445,058)	
Intergovernmental Services	(1,026,909)	-	-	-	(1,026,909)	(1,026,909)	
Interest on Long-Term Debt	(68,285)	-	-	-	(68,285)	(68,285)	
Total Governmental Activities	<u>(24,950,927)</u>	<u>1,343,370</u>	<u>1,720,971</u>	<u>491,388</u>	<u>(21,395,198)</u>	<u>(21,395,198)</u>	
Total Primary Government	\$ <u>(24,950,927)</u>	\$ <u>1,343,370</u>	\$ <u>1,720,971</u>	\$ <u>491,388</u>	\$ <u>(21,395,198)</u>	\$ <u>(21,395,198)</u>	
Component Unit							
Winchester Municipal Utilities	\$ (17,339,008)	\$ 16,431,489	\$ -	\$ -			\$ (907,519)
			General Revenues:				
			Taxes:				
			Property	\$ 2,523,413	\$ 2,523,413	\$ -	-
			Payroll	9,379,105	9,379,105	-	-
			Insurance Premium	2,551,579	2,551,579	-	-
			Hotel/Motel Room Tax	139,675	139,675	-	-
			Telecommunications Excise Tax	119,022	119,022	-	-
			Licenses, Franchise & Permits	1,125,457	1,125,457	-	-
			Investment Income	221,038	221,038		374,957
			Parking Fines	570	570		-
			Gain (Loss) on disposal of fixed assets	-	-		116,259
			Other Local Revenues	108,198	108,198		152,703
			Total General Revenues	\$ <u>16,168,057</u>	\$ <u>16,168,057</u>	\$	<u>643,919</u>
			Capital Contributions				174,355
			Change in Net Position	(5,227,141)	(5,227,141)		(89,245)
			Net Position June 30, 2018	(8,167,850)	(8,167,850)		68,541,179
			Prior Period Adjustment-Note 22	6,487,958	6,487,958		-
			Net Position June 30, 2018 - Restated	<u>(1,679,892)</u>	<u>(1,679,892)</u>		<u>68,541,179</u>
			Net Position June 30, 2019	\$ <u>(6,907,033)</u>	\$ <u>(6,907,033)</u>	\$	<u>68,451,934</u>

The accompanying notes are an integral part of this statement

FUND FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	GENERAL FUND	CAPITAL EQUIPMENT FUND	MUNICIPAL AID FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and Cash Equivalents	\$ 3,839,709	\$ 1,925,795	\$ 1,019,358	\$ 720,398	\$ 7,505,260
Accounts Receivable					
Taxes (net of allowance for doubtful accounts \$62,658)	1,806,729	-	-	-	1,806,729
Accounts, Net of allowance for doubtful accounts (\$536,988)	91,924	-	-	-	91,924
Intergovernmental	370,485	14,683	-	26,162	411,330
Prepaid Postage	3,584	-	-	-	3,584
Due from Other Funds	27,258	106,834	-	-	134,092
TOTAL ASSETS	\$ 6,139,689	\$ 2,047,312	\$ 1,019,358	\$ 746,560	\$ 9,952,920
LIABILITIES:					
Accounts Payable	\$ 68,812	\$ 5,900	\$ 761	\$ 20,815	\$ 96,288
Due to Other Funds	106,834	13,156	-	14,102	134,092
Accrued TIF Incentive Payable	123,149	-	-	-	123,149
Accrued Payroll & Related Liabilities	463,193	-	-	-	463,193
TOTAL LIABILITIES	761,988	19,056	761	34,917	816,722
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Property Taxes	22,964	-	-	-	22,964
FUND BALANCES:					
Restricted Fund Balance	-	-	1,018,597	219,868	1,238,465
Committed Fund Balance	282,119	2,028,257	-	491,774	2,802,150
Assigned Fund Balance	6,103	-	-	-	6,103
Unassigned Fund Balance	5,066,516	-	-	-	5,066,516
TOTAL FUND BALANCES	5,354,738	2,028,257	1,018,597	711,642	9,113,234
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND FUND BALANCES	\$ 6,139,690	\$ 2,047,313	\$ 1,019,358	\$ 746,559	\$ 9,952,919

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2019**

Total Governmental Fund Balances	\$ 9,113,234
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of Net Position	15,158,426
Deferred Inflows related to unavailable revenues are reported in the fund financial statements because they will be recognized in future periods but reported as revenue in the government-wide statements	22,964
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods	(1,567,218)
Deferred Inflows related to OPEB are not reported in the fund financial statements because they will be recognized in future periods	(1,685,424)
Deferred Outflows related to pension are not reported in the fund financial statements because they do not represent current financial resources	8,007,023
Deferred Outflows related to OPEB are not reported in the fund financial statements because they do not represent current financial resources	3,001,619
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	(1,667,331)
Incurred but Not Reported Health Claims	(418,863)
Compensated Absences Liability	(770,610)
Net Pension Liability--Cost-sharing CERS Plan	(26,851,732)
Net OPEB Liability--Cost-sharing CERS Plan	(7,899,059)
Net Pension Liability--Single-employer Police & Firefighters Plan	(1,350,062)
Net Position of Governmental Activities:	<u>\$ (6,907,033)</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>GENERAL</u>	<u>CAPITAL EQUIPMENT</u>	<u>MUNICIPAL AID FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:					
Taxes	\$ 13,285,441	\$ 1,280,925	\$ -	\$ 139,675	\$ 14,706,041
Licenses, Franchises & Permits	1,125,457	-	-	-	1,125,457
Charges for Services	1,343,371	-	-	-	1,343,371
Fines	570	-	-	-	570
Intergovernmental	1,557,460	112,631	375,392	166,878	2,212,361
Investment Income	121,734	47,465	30,119	21,720	221,038
Other	28,287	-	-	79,909	108,196
TOTAL REVENUES	<u>17,462,320</u>	<u>1,441,021</u>	<u>405,512</u>	<u>408,182</u>	<u>19,717,035</u>
EXPENDITURES:					
City Commission	680,681	961	-	100	681,742
City Attorney	65,273	-	-	-	65,273
City Manager	476,607	-	-	-	476,607
Finance Department	400,660	1,155	-	-	401,815
Planning Department	510,281	1,645	-	2,243	514,169
Main Street Department	108,456	-	-	21,480	129,936
Administration	1,085,799	-	-	-	1,085,799
Central Communications	1,090,787	1,742	-	-	1,092,529
Police Department	4,416,102	14,552	-	126,169	4,556,823
Fire Department	4,933,734	12,749	-	13,721	4,960,204
EMS Division	2,627,864	7,702	-	-	2,635,566
Public Works	1,259,467	4,522	390,364	-	1,654,353
Intergovernmental	885,059	-	-	251,852	1,136,911
Capital	50,131	443,326	-	32,311	525,768
Debt service principal	-	354,170	-	-	354,170
Debt service interest	-	68,285	-	-	68,285
TOTAL EXPENDITURES	<u>18,590,901</u>	<u>910,809</u>	<u>390,364</u>	<u>447,876</u>	<u>20,339,949</u>
Excess (Deficit) of Revenues over Expenditures	<u>(1,128,581)</u>	<u>530,212</u>	<u>15,148</u>	<u>(39,694)</u>	<u>(622,915)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from long-term borrowing	-	119,800	-	-	119,800
Gain/loss on sale of capital assets	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>119,800</u>	<u>-</u>	<u>-</u>	<u>119,800</u>
Net Change in Fund Balance	(1,128,581)	650,012	15,148	(39,694)	(503,115)
Fund Balance June 30, 2018	<u>6,483,318</u>	<u>1,378,245</u>	<u>1,003,449</u>	<u>751,338</u>	<u>9,616,350</u>
Fund Balance June 30, 2019	<u>\$ 5,354,737</u>	<u>\$ 2,028,257</u>	<u>\$ 1,018,597</u>	<u>\$ 711,644</u>	<u>\$ 9,113,235</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Net Change in Fund Balances - Total Governmental Funds	\$ (503,115)
Amounts reported for governmental activities in the statement of activities are different because:	
Unavailable taxes are not recognized in the fund statements because they are not current financial resources, but they are recognized in the statement of activities	6,750
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.	675,630
Loss on disposal of capital assets	
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services	(1,561,678)
Proceeds of lease proceeds are reported as sources of funds in the fund statements and increases in long-term debt in the governmentwide statements	(119,800)
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	(191,105)
Cost-sharing County Employees Retirement System	(3,102,184)
OPEB liability costs are not reported in the fund financial statements because they are not due in the current period, but they are presented as long-term liabilities in the statement of net position.	
Cost-sharing County Employees Retirement System	(607,889)
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.	(171,175)
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.	(6,744)
Bond and lease payments are recognized as expenditures of current financial resources in the fund financial statement, but are reductions of liabilities in the statement of net position.	354,170
Change in Net Position of Governmental Activities	<u>\$ (5,227,139)</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	GENERAL FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 13,091,400	\$ 13,091,400	\$ 13,285,441	\$ 194,041
Licenses, Franchise & Permits	1,125,300	1,125,300	1,125,457	157
Charges for Services	1,941,600	1,941,600	1,343,371	(598,229)
Fines	-	-	570	570
Intergovernmental	1,685,700	1,685,700	1,557,460	(128,240)
Investment Income	-	-	121,734	121,734
Other	-	-	28,287	28,287
TOTAL REVENUES	<u>17,844,000</u>	<u>17,844,000</u>	<u>17,462,320</u>	<u>(381,680)</u>
EXPENDITURES:				
General Government	3,642,000	3,854,300	3,377,888	476,412
Central Communications	1,433,000	1,463,000	1,090,787	372,213
Police Department	4,316,000	4,510,000	4,416,102	93,898
Fire Department	4,931,000	5,138,000	4,933,734	204,266
EMS Division	2,674,000	2,887,500	2,627,864	259,636
Public Works	2,111,000	2,126,000	1,259,467	866,533
Intergovernmental	888,400	901,150	885,059	16,091
Capital	-	-	-	-
Debt service principal	-	-	-	-
Debt service interest	-	-	-	-
TOTAL EXPENDITURES	<u>19,995,400</u>	<u>20,879,950</u>	<u>18,590,901</u>	<u>2,289,049</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,151,400)</u>	<u>(3,035,950)</u>	<u>(1,128,581)</u>	<u>1,907,369</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	-	-	-	-
Gain or loss on sale of capital assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(2,151,400)	(3,035,950)	(1,128,581)	1,907,369
Fund Balance June 30, 2018	<u>5,334,000</u>	<u>5,334,000</u>	<u>6,483,318</u>	<u>1,149,318</u>
Fund Balance June 30, 2019	<u>\$ 3,182,600</u>	<u>\$ 2,298,050</u>	<u>\$ 5,354,737</u>	<u>\$ 3,056,687</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	SPECIAL REVENUE FUND			
	(CAPITAL EQUIPMENT FUND)			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
ORIGINAL	FINAL	Favorable		
				(Unfavorable)
REVENUES:				
Taxes	\$ 1,150,000	\$ 1,150,000	\$ 1,280,925	\$ 130,925
Licenses & Permits	-	-	-	-
Charges for Services	-	-	-	-
Fines	-	-	-	-
Intergovernmental	192,300	192,300	112,631	(79,669)
Investment Income	40,000	40,000	47,465	7,465
Other	-	-	-	-
TOTAL REVENUES	<u>1,382,300</u>	<u>1,382,300</u>	<u>1,441,021</u>	<u>58,721</u>
EXPENDITURES:				
General Government	-	-	3,761	(3,761)
Central Communications	-	-	1,742	(1,742)
Police Department	-	-	14,552	(14,552)
Fire Department	-	-	12,749	(12,749)
EMS Division	-	-	7,702	(7,702)
Public Works	-	-	4,522	(4,522)
Capital	673,400	868,900	443,326	425,574
Debt service principal	379,700	379,700	354,170	25,530
Debt service interest	101,500	101,500	68,285	33,215
TOTAL EXPENDITURES	<u>1,154,600</u>	<u>1,350,100</u>	<u>910,809</u>	<u>439,291</u>
Excess (Deficit) of Revenues over Expenditures	<u>227,700</u>	<u>32,200</u>	<u>530,212</u>	<u>498,012</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	-	-	119,800	119,800
Gain/loss on sale of capital assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>-</u>	<u>119,800</u>	<u>119,800</u>
Net Change in Fund Balance	227,700	32,200	650,012	617,812
Fund Balance June 30, 2018	<u>1,568,500</u>	<u>1,568,500</u>	<u>1,378,245</u>	<u>(190,255)</u>
Fund Balance June 30, 2019	<u>\$ 1,796,200</u>	<u>\$ 1,600,700</u>	<u>\$ 2,028,257</u>	<u>\$ 427,557</u>

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	SPECIAL REVENUE FUND			VARIANCE
	(MUNICIPAL AID FUND)			
	BUDGETED AMOUNTS		ACTUAL	
ORIGINAL	FINAL	(Unfavorable)		
REVENUES:				
Taxes	\$ -	\$ -	\$ -	-
Licenses & Permits	-	-	-	-
Charges for Services	-	-	-	-
Fines	-	-	-	-
Intergovernmental	734,500	734,500	375,392	(359,108)
Investment Income	15,000	15,000	30,119	15,119
Other	-	-	-	-
TOTAL REVENUES	749,500	749,500	405,512	(343,988)
EXPENDITURES:				
General Government	-	-	-	-
Central Communications	-	-	-	-
Police Department	-	-	-	-
Fire Department	-	-	-	-
EMS Division	-	-	-	-
Public Works	759,400	819,400	390,364	429,036
Capital	-	-	-	-
Debt service principal	-	-	-	-
Debt service interest	-	-	-	-
TOTAL EXPENDITURES	759,400	819,400	390,364	429,036
Excess (Deficit) of Revenues over Expenditures	(9,900)	(69,900)	15,148	85,048
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	-	-	-	-
Gain/loss on sale of capital assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	-	-	-	-
Net Change in Fund Balance	(9,900)	(69,900)	15,148	85,048
	987,400	987,400	1,003,449	16,049
	\$ 977,500	\$ 917,500	\$ 1,018,597	\$ 101,097

The accompanying notes are an integral part of this statement

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2019

	ENTERPRISE FUND
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 8,659,241
Restricted Cash and Cash Equivalents	792,620
Accrued Interest, Restricted	13,870
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$51,597	1,907,793
SDC Assessments Receivable	459,397
Other Accounts Receivable	39,434
Materials and Supplies	425,939
Prepaid Expenses	552,989
Total Current Assets	12,851,283
Restricted Assets	
Cash and Cash Equivalents	21,132,611
Total Restricted Assets	21,132,611
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	106,714,964
Land	1,519,050
Construction in Progress	9,555,241
Total Property, Plant and Equipment	117,789,255
TOTAL ASSETS	\$ 151,773,149
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	\$ 1,937,609
OPEB	603,099
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 2,540,708
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 1,575,859
Other Accrued Liabilities	238,518
Customer Deposits	126,064
Accrued Interest Payable	82,496
Current Portion of Long-Term Debt	3,895,132
Total Current Liabilities	5,918,069
NONCURRENT LIABILITIES	
Compensated Absences	484,505
Noncurrent Portion of Long-Term Debt	68,738,478
Net Pension Liability	7,548,324
Net OPEB Liability	2,200,441
Total Noncurrent Liabilities	78,971,748
TOTAL LIABILITIES	\$ 84,889,817
DEFERRED INFLOWS OF RESOURCES	
Pensions	\$ 559,526
OPEB	412,584
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 972,110
NET POSITION:	
Net Investment in Capital Assets	45,155,646
Restricted for Capital Projects (Expendable)	19,264,884
Restricted for Bond Debt Service (Expendable)	2,527,291
Unrestricted	1,504,113
TOTAL NET POSITION	\$ 68,451,934

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND (COMPONENT UNIT)
FOR THE YEAR ENDED JUNE 30, 2019**

	ENTERPRISE FUND
OPERATING REVENUES:	
Water	\$ 5,073,268
Wastewater	7,695,660
Solid Waste	3,620,868
Transfer Station	41,692
TOTAL OPERATING REVENUES	16,431,488
OPERATING EXPENSES:	
Administrative	2,676,709
Solid Waste	2,258,138
Water	3,765,914
Wastewater	6,859,963
Vehicle Maintenance	217,694
TOTAL OPERATING EXPENSES	15,778,418
Operating Income (Loss)	653,070
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	374,957
Interest Expense	(1,534,585)
Other Income	152,703
Gain on Sale of Capital Assets	116,259
Amortization Expense of Bond Discount	(26,004)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(916,670)
Net Income (Loss) before Capital Grants & Contributions	(263,600)
Capital Contributions	174,355
Change in Net Position	(89,245)
Net Position, Beginning of Year	68,541,179
Net Position, End of Year	\$ 68,451,934

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (COMPONENT UNIT)
FOR THE YEAR ENDED JUNE 30, 2019**

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 16,586,894
Payments to Suppliers	(3,757,292)
Payments to Employees	(5,250,627)
Other Receipts (Payments)	<u>(22,052)</u>
Net Cash Provided (Used) by Operating Activities	<u>7,556,923</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	116,259
Principal Payments	(3,733,183)
Interest Payments	(1,539,731)
Purchase of Property, Plant and Equipment	(8,894,159)
Contributed Capital Received	174,355
Cash from Other Income	<u>152,703</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(13,723,756)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash from Interest	<u>361,536</u>
Net Cash Provided (Used) by Investing Activities	<u>361,536</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,805,297)
Cash and Cash Equivalents, Beginning of Year	<u>36,389,769</u>
Cash and Cash Equivalents, End of Year	<u>\$ 30,584,472</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and Cash Equivalents - Unrestricted	8,659,241
Cash and Cash Equivalents - Restricted	792,620
Investments - Restricted	<u>21,132,611</u>
Cash and Cash Equivalents, End of Year	<u>\$ 30,584,472</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 653,070
Adjustments to Reconcile Net Income (Loss) to Net Cash from Operating Activities:	
Depreciation/Amortization	5,051,694
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Accounts Receivable, Customers	67,077
SDC Assessments Receivable	23,603
Other Accounts Receivable	(22,052)
Material and Supplies	10,920
Prepaid Expenses	2,777
Deferred Outflows of Resources	511,214
Accounts Payable	847,059
Accrued Liabilities	83,310
Net Pension Liability	450,838
Net OPEB Liability	(237,219)
Compensated Absences	(48,200)
Customer Deposits	<u>(9,474)</u>
Net Cash Provided by Operating Activities	<u>\$ 7,384,617</u>
Supplemental Information, Noncash Transactions	
Donated Capital assets	\$ -
Depreciation and Amortization Expense	<u>\$ 5,051,694</u>

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2019**

	PENSION TRUST	AGENCY FUND
ASSETS		
Cash and Cash Equivalents	\$ 12,452	\$ 62,964
Investments	1,001,270	
Pension contribution receivable		
Accrued Investment Income	5,240	
TOTAL ASSETS	\$ 1,018,962	\$ 62,964
LIABILITIES		
Accounts Payable	\$ 1,126	-
Due to Member Agencies		62,964
TOTAL LIABILITIES	\$ 1,126	\$ 62,964
FIDUCIARY NET POSITION	\$ 1,017,836	

The accompanying notes are an integral part of this statement

**CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>PENSION TRUST</u>
ADDITIONS:	
Contributions	\$ -
Investment Income:	
Interest	19,768
Net Appreciation (Depreciation) in Fair Value of Investments	11,742
Gain (Loss) on Sale of Investments	(65)
Less: Investment Expense	<u>(4,525)</u>
Net Investment Income	<u>26,920</u>
Total Additions	26,920
DEDUCTIONS:	
Benefits	118,251
Program Expenses	
HRA Benefits	1,883
Taxes	<u>-</u>
Total Deductions	120,134
Change in Net Position	(93,214)
Net Position June 30, 2018	<u>1,111,050</u>
Net Position June 30, 2019	<u><u>\$ 1,017,836</u></u>

The accompanying notes are an integral part of this statement

NOTES TO THE FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

THE FINANCIAL REPORTING ENTITY

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. EXCLUDED FROM THE ENTITY:

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

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

Component Unit – WMU

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

BASIS OF PRESENTATION

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund Accounting

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

A. Governmental Fund Types

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

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

B. Proprietary Funds (Enterprise Fund)

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

BASIS OF ACCOUNTING

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

BUDGETARY PROCESS

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

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

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

CASH, CASH EQUIVALENTS AND INVESTMENTS

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

ACCOUNTS RECEIVABLE—COMPONENT UNIT (WMU)

Accounts receivable - Customers, are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. An adjustment to an allowance for doubtful accounts is based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2019, \$107,174 were written off as uncollectible.

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

INVENTORIES AND PREPAIDS

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS—COMPONENT UNIT (WMU)

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

CAPITAL ASSETS

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

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

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

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

CAPITAL ASSETS—COMPONENT UNIT (WMU)

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

COMPENSATED ABSENCES

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

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

BOND AMORTIZATION COSTS—COMPONENT UNIT (WMU)

Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense for bond discount as of June 30, 2019, was \$26,004.

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, 2019 total interest incurred and expensed was \$1,534,585.

LONG-TERM DEBT

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSIONS

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

PENSIONS—WMU

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)—WMU

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERFUND TRANSFERS

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

NET POSITION

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

Net position is displayed in three components:

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

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

- a) Nonspendable fund balance - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- b) Restricted fund balance - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.
- c) Committed fund balance – amounts constrained to specific purposes by the City itself, using its decision-making authority to be reported as committed, amounts cannot be used for any other purpose unless the city Commission votes to remove or change the constraint. A Commission resolution is required to commit funds. At June 30, 2019, \$282,119 was committed for the self-insurance program.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- d) Assigned fund balance - amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Manager has the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund May also include amounts that have been appropriated for expenditures in the budget for the City's subsequent fiscal year. At June 30, 2019, \$6,103 was assigned to the Splash Pad project. No assigned amounts were set aside for the FY2020 budget because a surplus was budgeted for the next year.
- e) Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Net Position—Component Unit (WMU)

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

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

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

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for FY2019 were levied on the assessed property located in the City of Winchester as of the preceding January 1. The assessments are determined by the Clark County Property Valuation Administrator in accordance with Kentucky Revised Statutes. Taxes were levied on October 31, 2018 and were due December 7, 2018. Taxes unpaid after December 7, 2018 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Therefore, \$22,964 is reported as deferred inflows of resources in the governmental funds at June 30, 2019, since these amounts are estimated to be collected after August 30, 2018. Based on collection histories, the City has provided at June 30, 2019, an allowance for uncollectible property taxes of 59.0% (\$62,658) of delinquent accounts (\$62,345). The net receivable (\$43,540) is reported in both the governmentwide and governmental fund financial statements.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)

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

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

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

TAP FEES—COMPONENT UNIT (WMU)

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

SYSTEM DEVELOPMENT CHARGES—COMPONENT UNIT (WMU)

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

JOINT VENTURE

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

Clark County Geographic Information System Consortium (CCGIS) is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. The city contributed \$87,000 for the year ended June 30, 2019. WMU contributed \$86,554 for the year ended June 30, 2019. There were no receivable/payables between the City, WMU, and CCGIS as of June 30, 2019. Complete financial statements for CCGIS can be obtained from WMU's Director of Finance.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE IMPLEMENTATION OF GASB STANDARDS

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

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

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASBS No 91, *Conduit Debt Obligations*, will be effective for reporting periods beginning after December 15, 2020 (City’s fiscal year 2022). This standard requires issuers to evaluate the level of commitment for issuers who allow third-party obligors to issue debt using the government issuer’s tax-exempt status and may require expanded note disclosures. The City will evaluate the industrial revenue bonds and determine whether changes are required to conform to the provisions of GASBS No. 91 and expand note disclosures as required.

ESTIMATES

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state-chartered banks insured by federal agencies. Larger amounts can be deposited in savings and loan associations and banks providing such institutions pledge obligations of the United States government or its agencies as security. As of June 30, 2019, the City is in compliance with this requirement.

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

<u>Investments</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Mutual Fund	\$ 111,104	\$ 111,104
U.S. Government Securities	<u>890,166</u>	<u>869,036</u>
Total Investments	<u>\$ 1,001,270</u>	<u>\$ 980,140</u>

Custodial Credit Risk

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law limits investments in accordance with KRS 95.600 "Pension Fund Investments". The City has no investment policy that would further limit its investment choices. As of June 30, 2019, 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.

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

06/30/19	Type	Fair Value	Maturities (in Years)			
			< Than 1	1 - 5	6 - 10	> 10
	Cash & Cash Equivalents	\$ 30,584,472	\$ 30,584,472	\$ 0	\$ 0	\$ 0
	Total	\$ 30,584,472	\$ 30,584,472	\$ 0	\$ 0	\$ 0

Credit Risk

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

06/30/19 Type	Fair Value	Ratings			
		AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 30,584,472	\$ 0	\$ 0	\$ 0	\$ 30,584,472
Total	\$ 30,584,472	\$ 0	\$ 0	\$ 0	\$ 30,584,472

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, 2019 all deposits and investments were either fully collateralized by federal depository insurance or by the pledging institution in WMU's name or were held in a bank's trust department in the City of Winchester's name, the primary government of the component unit, WMU.

NOTE 3 – WMU RESTRICTED ASSETS

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 – WMU RESTRICTED ASSETS (CONTINUED)

The restricted assets in the accompanying financial statements are restricted as to use by ordinance or by external parties. A schedule of restricted assets at June 30, 2019, follows:

		<u>Cash</u>
Restricted by Ordinance:		
Bond Redemption Account	\$	807,043
Reserve Accounts		1,103,567
Depreciation Account		2,863,101
Subtotal		<u>4,773,711</u>
Other Restricted Accounts:		
SDC Water Fund		2,852,825
SDC Wastewater Fund		275,259
Cash with Escrow Agent		14,423
Bond Funds Central		9,083,896
Customer Deposits		133,057
KIA Reserve		616,681
Water Improvements		3,048,896
2014 Bond Funds		-0-
Capital Accum-Water		794,644
Capital Accum–Wastewater		<u>347,076</u>
Total	\$	26,960,080
Current Restricted		<u>342,778</u>
Noncurrent Restricted	\$	<u>26,617,302</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 4 – PROPERTY PLANT AND EQUIPMENT

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

	Beginning Balance	Additions	Transfers & Retirements	Ending Balance
Governmental activities:				
Non-depreciable capital assets:				
Construction in progress	\$ 1,093,746	\$ 254,369	\$ (676,873)	\$ 671,241
Land	2,152,683	0	0	2,152,683
Total Non-depreciable capital assets	<u>3,246,429</u>	<u>254,369</u>	<u>(676,873)</u>	<u>2,823,924</u>
Depreciable capital assets:				
Buildings	6,040,974	0	0	6,040,974
Vehicles	6,813,668	228,211	(63,447)	6,978,432
Furniture & fixtures	420,973	0	0	420,973
Equipment	5,959,717	187,550	(20,895)	6,126,372
Infrastructure	24,166,830	682,373		24,849,203
Total depreciable capital assets	<u>43,402,161</u>	<u>1,098,135</u>	<u>(84,342)</u>	<u>44,415,954</u>
Less accumulated depreciation				
Buildings	(3,246,226)	(225,704)	-	(3,471,930)
Vehicles	(4,513,015)	(484,631)	63,447	(4,934,199)
Furniture & fixtures	(404,471)	(3,492)		(407,963)
Equipment	(4,375,315)	(472,646)	20,895	(4,827,066)
Infrastructure	(18,065,099)	(375,205)		(18,440,304)
Total accumulated depreciation	<u>(30,604,126)</u>	<u>(1,561,678)</u>	<u>84,342</u>	<u>(32,081,462)</u>
Total depreciable capital assets, net	<u>12,798,035</u>	<u>(463,543)</u>	<u>0</u>	<u>12,334,492</u>
Governmental activities capital assets, net	<u>\$ 16,044,464</u>	<u>\$ (209,174)</u>	<u>\$ (676,873)</u>	<u>\$ 15,158,416</u>

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

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

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

General Government	\$ 583,467
Public Protection	
Police	153,786
Fire Protection	493,545
EMS	248,887
Public Works	81,993
	<u>\$ 1,561,678</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

WMU's systems consist of the following:

<u>6/30/2019</u>	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
Non-depreciable Assets:				
Land	\$ 1,519,050	\$ 0	\$ 0	\$ 1,519,050
Construction in Progress	3,784,280	5,770,961	0	9,555,241
Total Non-depreciable Assets	<u>\$ 5,303,330</u>	<u>\$ 5,770,961</u>	<u>\$ 0</u>	<u>\$ 11,074,291</u>
Depreciable Assets:				
Administrative	\$ 3,513,684	\$ 230,782	\$ (102,922)	\$ 3,641,543
Water System	58,278,445	1,709,763	(906,712)	59,081,495
Wastewater System	113,471,997	2,948,756	(1,524,493)	114,896,260
Solid Waste	7,961,327	621,801	(337,580)	8,245,548
Vehicle Maintenance	477,697	0	0	477,696
Equipment Capital Lease	33,169	0	(25,669)	7,500
Subtotal	<u>183,736,319</u>	<u>5,511,102</u>	<u>(2,897,376)</u>	<u>186,350,042</u>
Accumulated Depreciation:				
Administrative	(2,143,340)	(144,622)	27,291	(2260,672)
Water System	(16,815,306)	(1,318,941)	19,366	(18,114,880)
Wastewater System	(33,747,635)	(3,140,822)	279,941	(36,608,516)
Solid Waste	(2,784,865)	(450,110)	172,614	(3,062,362)
Vehicle Maintenance	(350,099)	(7,793)	0	(357,893)
Prior Years Accumulated	(19,230,756)	0	0	(19,230,756)
Subtotal	<u>(75,072,001)</u>	<u>(5,092,288)</u>	<u>499,212</u>	<u>(79,635,079)</u>
Total Net Property, Plant and Equipment	<u>\$ 108,664,318</u>	<u>\$ 448,814</u>	<u>\$ (2,398,164)</u>	<u>\$ 106,714,963</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>2019</u>
Administrative	\$ 144,785
Water System	1,318,941
Wastewater System	3,140,822
Solid Waste	450,110
Vehicle Maintenance	<u>7,793</u>
Total Depreciation Expense	<u>\$ 5,062,451</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 — INTERFUND ACTIVITY

Interfund receivables and payables during the year ending June 30, 2019 were as follows.

Fund	Receivable	Payable
General Fund	\$ 27,258	\$ 106,834
Capital Equipment Fund	106,834	13,156
Federal & State Grants Fund		14,102
Total	\$ 134,092	\$ 134,092

NOTE 6 — OPERATING LEASES

The City had operating leases for the following equipment at June 30, 2019. Terms of the operating leases are as follows:

<u>Description</u>	<u>Date</u>	<u>Monthly Payment</u>	<u>Months</u>	<u>Location</u>	<u>End Date</u>
Ricoh IMC3500	6/30/2019	\$190	60	Dispatch	6/29/2024
MPC35043EX Ricoh copier	8/1/2018	159	60	Planning	8/1/2023
MP301SPF Ricoh copier	6/1/2018	47	48	City Manager	6/1/2022
MP301SPF Ricoh copier	6/1/2018	47	48	Finance	6/1/2022
MP6004 Ricoh copier	10/10/2016	316	48	City Administration	10/10/2020
MP5055SP Ricoh copier	10/10/2016	195	48	Fire Sta #3	10/10/2020
MP301SPF Ricoh copier	12/26/2018	190	60	Fire Sta #2	12/26/2023
MP3504 Ricoh copier	10/10/2016	203	48	Fire Sta #1	10/10/2020
MPC3500 Ricoh copier	6/19/2019	184	60	Police	6/18/2024
MPC4504EX09 Ricoh copier	9/25/2017	194	60	Police-Criminal Investigation	9/25/2022
MPC350SPF Ricoh copier	3/1/2017	39	48	Human Resources	3/1/2021

Rental expense for the current fiscal year was \$18,627. The future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
6/30/2020	21,455
6/30/2021	18,675
6/30/2022	11,214
6/30/2023	10,566
6/29/2024	8,267
Total	\$ 40,130

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7 — CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2019 consists of the following:

	Construction in Progress			
	Beginning	Additions	Completed	Ending
7th Street	199,735.97	-	-	199,735.97
Fulton Rd	199,725.00	-	-	199,725.00
Maple/Boone Sanitary Sewer	271,428.44	-	271,428.44	-
Community Splash Pad	43,069.49	-	-	43,069.49
Fire Training Tower Addition	-	86,387.00	86,387.00	-
Soccer Park	203,915.63	-	203,915.63	-
Lincoln Street	7,691.75	46,085.00	-	53,776.75
Lykins Park Trail	5,141.00	-	5,141.00	-
Sphar Building	163,038.40	11,895.53	-	174,933.93
Urban Trail Project	-	110,001.12	110,001.12	-
	<u>1,093,745.68</u>	<u>254,368.65</u>	<u>676,873.19</u>	<u>671,241.14</u>

NOTE 8 - LONG-TERM DEBT

CHANGES IN LONG-TERM DEBT

Governmental long-term liability activity was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital Leases	\$ 1,901,700	\$ 119,800	\$ 354,170	\$ 1,667,330	341,550
Sick Leave	763,866	6,744	-	770,610	21,096
Total Governmental	<u>\$ 2,665,566</u>	<u>\$ 126,544</u>	<u>\$ 354,170</u>	<u>\$ 2,437,940</u>	<u>362,646</u>

Leased facilities and equipment under capital leases in capital assets at June 30, 2019, included the following:

Facilities and Equipment	\$4,168,116
Less: Accumulated Depreciation	<u>(1,745,251)</u>
Net Value	<u>\$2,422,865</u>

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

CAPITAL LEASES

The City has four capital leases as of June 30, 2019. The liability for the lease obligations have been recorded in the government-wide financial statements. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Details of the leases are presented below.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – LONG-TERM DEBT (CONTINUED)

<u>Purpose</u>	<u>Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Annual Payment</u>	<u>Outstanding Balance</u>
Winchester Community Center	05/21/10	3.48%	20 years	\$ 141,815	\$ 1,052,870
Ambulance Remounts	09/03/15	1.75%	4 years	36,522	9,091
2 Ambulance Remounts	03/15/17	1.89%	4 years	62,144	91,692
SCBA's	03/15/17	2.05%	5 years	83,941	204,061
Rescue Pumper	03/15/17	4.93%	5 years	83,941	204,061
2019 Ambulance Remount	07/03/18	2.89%	4 years	31,850	105,555
				\$ 440,213	\$ 1,667,330

Capital leasing commitments to maturity for the year ending June 30, 2019:

2020	\$ 409,146
2021	366,942
2022	249,982
2023	147,964
2024	130,092
Thereafter	665,670
Total Minimum Lease Payments	1,969,796
Less interest payments	302,466
Present Value of Minimum Lease Payments	\$ 1,667,330

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, 2019 are summarized as follows:

<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Original Issue</u>	<u>2019 Total</u>
2011 Issue	5.27%	01/01/31	\$ 9,010,000	\$ 6,166,250
2012 Issue	2.00-3.75%	07/01/32	7,495,000	5,270,000
2014 Issue	2.00-4.00%	07/01/45	9,915,000	9,075,000
2018 Issue	3.00-4.00%	07/01/42	13,045,000	13,045,000
Less: Unamortized Discount				(506,157)
Total Bonds				33,050,093
KIA-Strodes Creek	1.00%	12/01/28 Estimate	21,000,000	11,500,120
KIA-Lower Howards Creek	2.00%	01/01/31 Estimate	36,600,000	27,105,000
KIA-Bel-Air	2.00%	01/01/31	1,000,000	397,861
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	212,021
KIA-Vaught Court	2.00%	06/01/31	287,400	172,086
KIA-Hampton Manor	1.75%	06/01/37	\$ 1,249,088	1,196,428
Total KIA Loans				39,583,515
Less: Current Maturities				(3,895,130)
Total Long Term				\$ 68,738,478

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	3,895,130	1,906,085	5,801,215
2021	3,983,974	1,857,748	5,841,722
2022	4,076,563	1,749,465	5,826,028
2023	4,169,998	1,661,313	5,831,311
2024	4,271,381	1,569,735	5,841,116
2025-2029	22,849,830	6,271,602	29,251,442
2029-2033	16,851,577	3,443,934	20,425,521
2033-2038	6,543,900	1,819,799	8,480,592
2039-2043	5,590,000	614,588	6,204,588
2043-2048	530,000	21,200	1,097,600
	<u>\$ 73,139,266</u>	<u>\$ 20,848,961</u>	<u>\$ 93,988,227</u>

Series 2011 Bonds

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

Refunding, Series 2012 Bonds

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

Series 2014 Bonds

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

Series 2018 Bonds

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

KIA – Strodes Creek Loan

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

KIA – Vaught Court Loan

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

KIA – Lower Howards Creek

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

KIA – Industrial Elevated Storage Tank

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

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

KIA – Bel Air Sanitary

On October 1, 2012, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the Bel-Air and Westside pump station projects, \$1,000,000.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

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.

KIA – Hampton Manor

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

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

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, 2019 are as follows:

06/30/19 Description	Beginning	Borrowings Additions	Repayments Reductions	2019 Ending	Current
Compensated Absences	\$ 532,705	\$ 0	\$ 48,200	\$ 484,505	\$ 70,583
Bonds	33,965,342	0	916,015	33,050,093	966,251
KIA-Strodes Creek	11,548,616	0	1,048,494	10,500,120	1,059,006
KIA-Lower Howards	28,767,275	0	1,662,282	27,105,000	1,696,368
KIA-Bel-Air	422,261	0	24,400	397,861	24,891
KIA-Storage Tank	228,266	0	16,245	212,021	16,573
KIA-Vaught Court	185,942	0	13,856	172,086	14,134
KIA-Hampton Manor	1,249,088	0	52,661	1,196,428	53,586
Total Long-Term Debt	\$ 76,899,498	\$ 0	\$ 3,782,153	\$ 73,118,114	\$ 3,901,392

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 9 – COMPLIANCE WITH BOND ORDINANCES - WMU

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

Bond Debt Service – Bonds

Monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next principal payment shall be set aside monthly so as to accumulate in the Bond Fund in order to pay interest and principal on the bonds. In addition, the Bond Ordinance requires that a specific amount be maintained in the Debt Service Reserve Account defined as the “Reserve Amount.” The account is to be reviewed each year and funded based on the least of three factors: 1) maximum annual principal and interest requirement, 2) 125% of the average annual principal and interest requirement or 3) 10% of the outstanding loan proceeds. The first factor was applicable for June 30, 2019 and required a balance of \$1,048,175.

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

Depreciation Reserve – Bonds and KIA Loan

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

Interest Coverage Ratio – Bonds and KIA Loan

On April 3, 2012, a new general bond ordinance was adopted that requires Winchester Municipal Utilities to maintain an interest coverage ratio of 1.2 times - annual debt service requirements for bonds and 1.0 times - annual debt service requirements for bonds and KIA loans. Other changes in coverage ratio are noted below in calculation of ratios as shown.

The City of Winchester is required by bond ordinance to adjust rates as necessary to maintain such minimum coverage. Computed as follows:

Bonds:		2019
Income Available for Debt Service	\$	1,294,779
Add: Depreciation		5,062,451
Cash Available for Bond Debt Service	\$	6,357,230
Annual Debt Service on Bonds		2,210,196
Coverage Ratio		2.88
KIA:		2019
Income Available for Debt Service	\$	1,294,779
Add: Depreciation		5,062,451
Cash Available for Debt Service	\$	6,357,230
Annual Debt Service on all Debt		5,746,262
Coverage Ratio		1.11

Winchester Municipal Utilities is in compliance with all of the covenants of the bond ordinance and KIA loan agreement as of June 30, 2019.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

Winchester Municipal Utilities' five-year capital plan includes major capital construction of new wastewater treatment plant, pump station and force mains which are projected to be funded as follows:

Water Utility Improvements	\$	1,925,220
Wastewater Utility Improvements		<u>9,200,000</u>
Total projected financing requirement	\$	<u>11,125,220</u>

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

Finance and Administration:		
Copiers	\$	5,000
Upgrade Local Area Network		7,000
Replace Microcomputers		6,000
Field Operation Vehicles		330,000
Solid Waste Collection:		
Cubit Replacement		25,000
Container Replacement		50,000
Replace Compactor Ejector Box		10,000
Solid Waste Recycling		500
Water Treatment Plant Equipment Improvements		25,000
Water Distribution:		
Main Replacement		150,000
Fire Hydrant Replacement		12,000
Gate Valve Replacement		10,000
Elevated Storage Tank Rehabilitation		100,000
Meter Change-Out/AMR Equipment		300,000
New Meter Services		30,000
Large Meter Change Out Program		50,000
Meter Reading Handheld Unit		12,500
Electrical Rear Gate		18,500
Wastewater Collection:		
Main Replacement Program		150,000
I&I Rehabilitation		20,000
Rehabilitation of Private Sewers		20,000
Flow Meters		10,000
System Capacity Assurance Program		18,000
Routine Hydraulic Cleaning		60,000
Wastewater Treatment Plant (SC):		
Replacement of Laboratory Equipment		2,000
Annual Allocation for Equipment Improvements		60,000
Wastewater Solids Processing (SC):		
Annual Allocation for Equipment Improvements		65,000
New Roof for Solids Processing Facility		73,200
Concrete Road Repairs/ Improvements		71,000
Wastewater Treatment Plant (LHC)		
Annual Allocation for Equipment Improvements		40,000
Wastewater Solids Processing (LHC):		
Purchase of New Roll Off Truck		90,000
Annual Allocation for Solids Equipment/Improvements		<u>15,000</u>
Total Annual Allocations for Infrastructure Investment	\$	<u>1,835,700</u>

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

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

NOTE 12 – PENSION PLANS

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

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

	CERS	P&F	Total City	WMU
Deferred Outflows	\$ 6,116,614	\$ 58,346	\$ 6,174,960	\$ 1,433,008
Deferred Inflows	\$ 1,567,218	\$ -	\$ 1,567,218	\$ 559,526
Net Pension Liability	\$ 26,851,732	\$ 1,350,062	\$ 28,201,794	\$ 7,548,324
Pension Expense	\$ 4,934,244	\$ 187,403	\$ 5,121,647	\$ 781,847

A – POLICEMEN'S AND FIREMEN'S PENSION FUND

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

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

Membership Data for the Closed Plan:

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 – PENSION PLANS (CONTINUED)

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

The Policemen’s and Firemen’s Pension Plan’s actuarial valuation was performed on July 1, 2018, and the report issued by the firm of Findley, LLC. A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board.

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

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

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

The City is no longer contributing to the plan based on the actuarially determined contributions that would amortize the unfunded liability over a specific period. The City is only contributing a fixed amount of \$65,000 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, 2019, PNC has invested 11.1% of the trust in a mutual fund (for cash flow purposes) and 88.9% in U.S. Treasury securities. At June 30, 2019, the allocation to the mutual fund was higher because the City had requested a \$100,000 transfer from trust assets to fund benefit payments for the next fiscal year. As of June 30, 2019, the annual money-weighted rate of return, net of investment expense is 2.55%.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 – PENSION PLANS (CONTINUED)

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

As of June 30, 2019, the US Treasury securities included the following:

<u>Type</u>	<u>Rate</u>	<u>Maturity</u>	<u>Rating</u>	<u>Market Value</u>	<u>Cost</u>
Treasury Notes	2.125%	01/31/2021	AAA	\$ 100,457	\$ 99,442
Treasury Notes	2.125%	09/30/2021	AAA	70,591	69,442
Treasury Notes	3.375%	11/15/2019	AAA	100,445	96,926
Treasury Notes-TIPS	1.875%	07/15/2019	Not rated	119,747	105,770
Treasury Notes	.875%	07/31/2019	AAA	74,914	73,931
Treasury Notes	1.125%	03/31/2020	AAA	99,344	98,965
Treasury Notes	1.125%	04/30/2020	AAA	124,083	125,630
Treasury Notes	1.375%	01/31/2020	AAA	99,594	99,774
Treasury Notes	2.125%	07/31/2021	AAA	100,992	99,156

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

Components of the Net Pension Liability. The components of the liability of the City for benefits provided through this single-employer plan include the following as of June 30, 2019:

Total Pension Liability	\$ 2,367,898
Pension Plan's Fiduciary Net Position	(1,017,836)
Net Pension Liability	<u>\$ 1,350,062</u>

Significant Assumptions Used in Actuarial Study. The actuarial analysis, completed as of June 30, 2019, has been based on the demographic estimates for the remaining seven retirees and beneficiaries using the entry age normal funding method as required by GASB Statement Nos. 67 and 68.

- Normal retirement period applied to employees who had completed 20 years of service and obtained the age of 55. The benefit was 50% of monthly salary at time of retirement.
- Mortality rates are based on the RP-2014 Generational Mortality Tables Adjusted to 2006 with projected mortality improvements after 2006 under Scale MP-2018.
- The actuarial assumptions included an assumption for future COLAs based on a geometric average of the COLAs made during the most recent ten years, rounded to the nearest 0.5% (currently 2.0%, compared to 1.5% 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, 2019

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 (\$65,000 per year). The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments through this date, and a 20-year municipal bond rate was used for the period thereafter to determine the total pension liability. The discount rate used to measure the total pension liability was 2.79%. 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	Current Rate	1% Increase
	1.79%	2.79%	3.79%
Total Pension Liability	\$ 2,673,167	\$ 23,102	\$ 2,022,881
Plan Fiduciary Net Position	1,017,837	1,017,837	1,017,837
Net Pension Liability	\$ 1,655,330	\$ (994,735)	\$ 1,005,044

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, 2019.

	Increase/(Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	
Balances, June 30, 2018	\$ 2,310,163	\$ 1,111,050	\$ 1,199,113	
Changes for the Year:				
Interest expense	66,934		66,934	\$ 66,934
Experience loss (gains)	30,779		30,779	30,779
Changes of assumptions	78,273		78,273	78,273
Employer contributions		0	0	
Net investment income		31,445	(31,445)	
Expected return on plan investments				(31,244)
Current expense of asset gain/loss			0	44,544
Benefits paid	(118,251)	(118,251)	0	
Plan administrative expenses		(4,525)	4,525	
Other changes		(1,883)	1,883	(1,883)
Net changes	57,735	(93,213)	150,949	\$ 187,403
Balances, June 30, 2019	\$ 2,367,898	\$ 1,017,837	\$ 1,350,062	

Pension Expense Deferred Outflows/Inflows. For the year ended June 30, 2019, the recognized pension expense was \$187,403.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 – PENSION PLANS (CONTINUED)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	<u>\$ 58,346</u>	-0-
Total	<u>\$ 58,346</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:

Year ending	
June 30:	
2020	\$ 30,144
2021	20,215
2022	7,111
2023	876
2024	-
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, 2019

NOTE 12 – PENSION PLANS (CONTINUED)

B — COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

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

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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, 2019

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, 2019, 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 (.085848%)	\$ 5,228,405	
Hazardous plan (.89410%)	<u>21,623,327</u>	
Total City's proportionate share	<u>\$ 26,851,732</u>	
WMU's proportionate share of the net pension liability (.123940%)	<u>\$ 7,548,324</u>	

The net pension liability for each plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the City's proportion was 0.085848% of the nonhazardous plan and 0.89410% of the hazardous plan. WMU's proportion was .123940% of the CERS nonhazardous plan. For the year ended June 30, 2019, the City recognized pension expense of \$906,406 for nonhazardous members and \$4,321,281 for hazardous members in CERS. WMU recognized expense of \$781,847.

At June 30, 2019, City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Non-hazardous</u> Deferred Outflows of Resources	<u>Hazardous</u> Deferred Outflows of Resources	<u>Total City</u> Deferred Outflows of Resources	<u>WMU</u> Deferred Outflows of Resources	<u>Non-hazardous</u> Deferred Inflows of Resources	<u>Hazardous</u> Deferred Inflows of Resources	<u>Total City</u> Deferred Inflows of Resources	<u>WMU</u> Deferred Inflows of Resources
Differences between expected and actual experience	\$ 170,536	\$ 1,720,852	\$ 1,891,388	\$ 246,205	\$ 76,533	\$ -	\$ 76,533	\$ 110,492
Changes of assumptions	510,967	2,301,730	2,812,697	737,691	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	243,125	801,475	1,044,600	351,003	305,816	1,045,376	1,351,192	441,511
Changes in proportion and differences between City's contributions and proportionate share of contributions	137,903	230,026	367,929	98,109	71,309	68,184	139,493	7,523
City's contributions subsequent to the measurement date	316,395	1,515,668	1,832,063	504,601	-	-	-	-
Totals	<u>\$ 1,378,926</u>	<u>\$ 6,569,751</u>	<u>\$ 7,948,677</u>	<u>\$ 1,937,609</u>	<u>\$ 453,658</u>	<u>\$ 1,113,560</u>	<u>\$ 1,567,218</u>	<u>\$ 559,526</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 – PENSION PLANS (CONTINUED)

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

\$1,706,382 reported as deferred outflows of resources related to pensions resulting from City contributions and \$447,900 resulting from WMU contributions subsequent to the measurement date for the 2018 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year ended June 30,	Amortization of Pension Deferred Outflows (Inflows) of Resources			
	Non-haz	Hazardous	Total City	WMU
2020	\$ 480,115	\$ 2,803,198	\$ 3,283,313	\$ 645,902
2021	229,577	1,328,924	1,558,501	338,299
2022	(72,757)	(93,954)	(166,711)	(70,207)
2023	(28,062)	(97,645)	(125,707)	(40,512)
2024	-	-	-	-
Thereafter	-	-	-	-
	<u>\$ 608,873</u>	<u>\$ 3,940,523</u>	<u>\$ 4,549,396</u>	<u>\$ 873,482</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increase	Ranges from 3.30% to 11.55%, depending on years of service and classification
Inflation	2.30%
Payroll growth assumption	2%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. 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 the 2019 actuarial analysis.

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, 2019

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:

Allocations Apply to CERS, CERS-Haz, and KERS-Haz in Pension Funds and All Plans are included in the Insurance Fund		
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 12 – PENSION PLANS (CONTINUED)

Discount rate

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	5.25%	6.25%	7.25%
CERS -- NonHazardous	\$ 6,582,020	\$ 5,228,405	\$ 4,094,312
CERS -- Hazardous	27,092,613	21,623,327	17,101,938
Total Net Pension Liabilities	<u>\$ 33,674,633</u>	<u>\$ 26,851,732</u>	<u>\$ 21,196,250</u>
WMU Net Pension Liabilities	\$ 9,502,558	\$ 7,548,324	\$ 5,911,018

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, 2019 were \$48,763. WMU does not contribute to these plans.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 13 – CONTINGENCIES AND COMMITMENTS

A – INDUSTRIAL DEVELOPMENT BONDS

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

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

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

B - LITIGATION

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

NOTE 14 – WMU – LANDFILL POST-CLOSURE COSTS

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 15 – WMU – ECONOMIC DEPENDENCY

WMU is economically dependent for water and wastewater revenues from the following four entities which account for 19% for 2019:

Name	2019
The Kroger Company	\$ 759,146
Sekisui	437,677
East Clark County WD	285,342
Infiltrator	245,813
Catalent	242,055
	\$ 1,970,074

NOTE 16 – RISK MANAGEMENT

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

CITY – SELF-INSURANCE

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

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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 (\$212,994) and shared revenues from the Commonwealth of Kentucky (\$1,025,469). Committed fund balance includes amounts set aside by the City Commission for balances held by a third-party administrator to pay future employee health care claims (\$282,119), special projects (\$481,274), and capital acquisitions (\$2,028,257). Assigned fund balance includes amounts set aside for the special projects (\$6,103).

NOTE 18 – LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUNDS

The City received \$5,995 in LGEA Funds during the current fiscal year. The City is in a non-coal producing county and is required to expend these funds in accordance with KRS 42.470, which limits the expenditures to public transportation, including mass transit systems, streets and roads. During fiscal year 2019, the City did not spend any funds on LGEA projects.

NOTE 19 – RELATED ORGANIZATIONS

The City participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. In most cases, the city and county contribute equal funding for operations. The following table outlines these organizations and the City's contribution during fiscal year 2019.

Winchester/Clark County Planning & Zoning	\$ 7,000
Winchester/Clark County Parks & Recreation	369,900
Clark County/Winchester Heritage Commission	15,000
Winchester/Clark County Recreation	57,000
Winchester/Clark County Industrial Development Authority	138,300
Winchester/Clark County Board of Adjustment	2,250
Clark County GIS	87,000
Total Contributions	<u>\$ 676,450</u>

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS

GASB standards require the separation of healthcare benefits (OPEB) provided to retirees from the service-related pension benefits if these benefits are provided in conjunction with a defined benefit plan. As we noted in Note 1 — Summary of Significant Accounting Policies, GASB Statement No. 75 required the City and its component unit, WMU, to recognize their proportionate share of the collective net OPEB liability for the CERS cost-sharing plan, as well as the net OPEB liability associated with the single-employer Policemen's and Firemen's Pension Fund for the fiscal year ended June 30, 2019.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

		City		WMU
Deferred Outflows	\$	304,398	\$	632,344
Deferred Inflows		321,950		417,668
Net OPEB Liability		1,524,161		\$2,200,441
OPEB Expense		1,348,830		120,439

Plan Description—Policemen’s & Firemen’s Pension Fund. The Health Reimbursement Account added in 2004 is paid directly by the City based on actual costs incurred by the retirees. Any liability associated with that benefit has not been recognized in the actuarial analysis of the service-related pension benefits and is funded on a pay-as-you-go approach. During the year ended June 30, 2019, the City contributed \$72 to fund these OPEB benefits. Management has determined that the OPEB liability associated with this benefit is not material and has not calculated the OPEB liability using the guidance in GASBS No. 74 or 75.

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

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non- hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree’s spouse may also receive this contribution upon the retiree’s death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

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

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

At June 30, 2019, the City reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by the City as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with the City were as follows:

City 's proportionate share of the net OPEB liability	
Nonhazardous plan (.085845%)	\$ 1,524,161
Hazardous plan (.894146%)	<u>6,374,898</u>
Total proportionate share	<u>\$ 7,899,059</u>
WMU proportionate share of the net OPEB liability (.123935%)	\$ 2,200,441

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The City's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2019, the City's proportion was 0.085845% of the nonhazardous plan and 0.894146% of the hazardous plan. WMU's proportion was .123935% of the nonhazardous plan.

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

For the year ended June 30, 2019, the City recognized OPEB expense of \$189,926 for nonhazardous members and \$1,189,544 for hazardous members in CERS.

At June 30, 2019, City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Non-hazardous</u>	<u>Hazardous</u>	<u>Total City</u>	<u>WMU</u>	<u>Non-hazardous</u>	<u>Hazardous</u>	<u>Total City</u>	<u>WMU</u>
	<u>Deferred Outflows</u>	<u>Deferred</u>	<u>Deferred Outflows</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows of</u>	<u>Deferred Inflows of</u>	<u>Deferred Inflows of</u>	<u>Deferred Inflows</u>
	<u>of Resources</u>	<u>Outflows of</u>	<u>of Resources</u>	<u>of Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>of Resources</u>	<u>of Resources</u>
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -	\$ 177,621	\$ 712,415	\$ 890,036	\$ 256,432
Changes of assumptions	304,398	1,956,280	2,260,678	439,461	3,521	17,438	20,959	5,084
Net difference between projected and actual earnings on pension plan investments	-	-	-	-	104,985	606,048	711,033	151,567
Changes in proportion and differences between City's contributions and proportionate share of contributions	-	-	-	29,245	35,823	27,573	63,396	4,585
City's contributions subsequent to the measurement date	95,161	595,071	690,232	163,638	-	-	-	-
Totals	\$ 399,559	\$ 2,551,351	\$ 2,950,910	\$ 632,344	\$ 321,950	\$ 1,363,474	\$ 1,685,424	\$ 417,668

\$690,232 reported as deferred outflows of resources related to OPEB resulting from City contributions and \$163,638 resulting from WMU contributions subsequent to the measurement date for the 2018 plan year will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

Year ended June 30,	Amortization of OPEB Deferred Outflows (Inflows) of Resources			
	Non-hazardous	Hazardous	Total City	WMU
2020	\$ (1,483)	\$ 374,830	\$ 373,347	\$ 12,279
2021	(1,483)	374,830	373,347	12,279
2022	(1,483)	22,973	21,490	12,279
2023	18,907	(179,827)	(160,920)	41,716
2024	(20,137)	-	(20,137)	(14,684)
Thereafter	(11,873)	-	(11,873)	(12,830)
	<u>\$ (17,552)</u>	<u>\$ 592,806</u>	<u>\$ 575,254</u>	<u>\$ 51,039</u>

Actuarial Assumptions

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

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% - 11.55%, depending on years of service
Inflation rate	2.30%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 1.05% over a period of 11 years
Ages 65 and Older	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 9 years
Municipal Bond Index Rate	3.62%
Discount Rate	5.85%

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 the 2019 actuarial analysis.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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:

Allocations Apply to CERS, CERS-Haz, and KERS-Haz in Pension Funds and All Plans are included in the Insurance Fund		
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

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

The single discount rate of 5.85% for CERS-Nonhazardous was used to measure the total OPEB liability as of June 30, 2018. The Single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 20 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB PLAN – COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Future contributions are projected in accordance with the current funding policy mandated in Ky Revised Statutes 61.565, as amended, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2018) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	4.84%	5.84%	6.84%
CERS -- NonHazardous	\$ 1,979,641	\$ 1,524,161	\$ 1,136,175
CERS -- Hazardous	8,861,422	6,374,898	4,384,370
Total Net OPEB Liabilities	<u>\$ 10,841,063</u>	<u>\$ 7,899,059</u>	<u>\$ 5,520,545</u>
WMU Net OPEB Liabilities	\$ 2,858,020	\$2,200,441	\$1,640,304

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS -- NonHazardous	\$ 1,134,753	\$ 1,524,161	\$ 1,983,161
CERS -- Hazardous	4,341,613	6,374,898	8,893,206
Total Net OPEB Liabilities	<u>\$ 5,476,366</u>	<u>\$ 7,899,059</u>	<u>\$ 10,876,367</u>
WMU Net OPEB Liabilities	\$ 1,638,250	\$2,200,441	\$2,863,103

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

The City and Catalent Pharma Solutions, LLC entered into several agreements during fiscal year 2017. These agreements are in connection with the City of Winchester, Kentucky Industrial Building Revenue Bonds Series 2015 (Bonds). The Bonds will be used for the Catalent Pharma Solutions, LLC Project expansion (Project). The City entered into an In-Lieu of Tax Payment Agreement (Agreement) and a Lease agreement (Lease) with Catalent Pharma Solutions, LLC. (Catalent). The lease agreement was amended during fiscal year 2018 to include a tract of omitted property. Catalent paid the City \$43,397 in-lieu tax payment during fiscal year 2019.

NOTE 22 – PRIOR PERIOD ADJUSTMENT AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

For the year ended June 30, 2018, the reported proportionate amount of the net pension liability for both CERS non-hazardous and hazardous plans was overstated. This error has been reported as a prior period adjustment in the statement of activities. There was no impact on the governmental funds.

	Non- Hazardous	Hazardous	Total City
Change in CERS Net Pension Liability at 6/30/2018	\$ (1,341,480)	\$ (5,146,478)	\$ (6,487,958)
Total Restatement of Net Position	\$ 1,341,480	\$ 5,146,478	\$ 6,487,958

NOTE 23 – SUBSEQUENT EVENTS

The city has evaluated all subsequent events through January 17, 2020 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

**SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES
POLICEMEN'S AND FIREMEN'S DEFINED PENSION TRUST
For the Year Ended June 30, 2019**

	2019	2018	2017	2016	2015	2014
SCHEDULE OF CHANGES IN NET PENSION LIABILITY:						
Total Pension Liability:						
Total Pension Liability - beginning of period	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956	\$ 2,229,075
Interest cost	66,934	69,137	78,290	88,989	90,061	108,334
Differences between expected and actual experience	30,779	34,680	9,417	(2,392)	(117,035)	(18,476)
Changes of assumptions	78,273	50,570	56,183	183,853	105,860	(74,789)
Benefit payments	(118,251)	(115,818)	(115,820)	(117,851)	(116,917)	(115,188)
Total Pension Liability - end of period	<u>2,367,898</u>	<u>2,310,163</u>	<u>2,271,594</u>	<u>2,243,524</u>	<u>2,090,925</u>	<u>2,128,956</u>
Plan Fiduciary Net Position						
Plan Fiduciary Net Position - beginning of period	1,111,050	1,181,440	1,277,267	1,364,940	1,472,928	1,567,294
Contributions - Employer	-	45,000	25,000	20,232	15,662	14,370
Net Investment Income	31,445	8,231	136	20,234	3,936	15,822
Benefit Payments/Refunds	(118,251)	(115,818)	(115,820)	(123,083)	(119,483)	(115,188)
Other	(6,408)	(7,803)	(5,143)	(4,599)	(8,103)	(9,370)
Plan Fiduciary Net Position - end of period	<u>1,017,837</u>	<u>1,111,050</u>	<u>1,181,440</u>	<u>1,277,724</u>	<u>1,364,940</u>	<u>1,472,928</u>
Net Pension Liability - end of period	<u>\$ 1,350,062</u>	<u>\$ 1,199,113</u>	<u>\$ 1,090,154</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
SCHEDULE OF NET PENSION LIABILITY						
Total pension liability	\$ 2,367,898	\$ 2,310,163	\$ 2,271,594	\$ 2,243,524	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	1,017,837	1,111,050	1,181,553	1,277,724	1,364,940	1,472,928
Net pension liability	<u>\$ 1,350,062</u>	<u>\$ 1,199,113</u>	<u>\$ 1,090,041</u>	<u>\$ 965,800</u>	<u>\$ 725,985</u>	<u>\$ 656,028</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	<u>42.98%</u>	<u>48.09%</u>	<u>52.01%</u>	<u>56.93%</u>	<u>65.28%</u>	<u>69.19%</u>
Note: There is no covered payroll for this plan						
SCHEDULE OF CONTRIBUTIONS						
Actuarially determined contribution	\$ 265,533	\$ 285,400	\$ 161,363	\$ 215,517	\$ 168,897	\$ 145,214
Actual employer contributions	0	0	25,000	15,000	10,000	5,000
Contribution deficiency (excess)	<u>\$ 265,533</u>	<u>\$ 285,400</u>	<u>\$ 136,363</u>	<u>\$ 200,517</u>	<u>\$ 158,897</u>	<u>\$ 140,214</u>
Note: There is no covered payroll for this plan						
Annual Money-Weighted Rate of Return						
Annual money-weighted rate of return, net of investment expense	2.55%	0.35%	-0.39%	1.16%	-0.10%	0.94%

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

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

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

Valuation Date	6/30/2019
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, In with adjustments as reported by City Treasurer
Actuarial Assumptions:	
Discount Rate	2.79%
Inflation	1.52%
Other	RP-2014 General Mortality Tables Adjusted to 2006

Changes in Assumptions from Prior Actuarial Valuation

	Previous	Current
Discount rate (for funding and GASB calculation purposes)	A 20 year high grade municipal bond rate (currently 2.98% per annum)	A 20 year high grade municipal bond rate (currently 2.79% per annum)

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

	Previous	Current
Mortality rates	RP-2014 Generational Mortality Tables (Total Data Set) adjusted to 2006 with projected mortality improvements under Scale MP-2017 (male and female scales)	RP-2014 Generational Mortality Tables (Total Data Set) adjusted to 2006 with projected mortality improvements under Scale MP-2018 (male and female scales)

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

	Previous	Current
Cost of Living Adjustments (for funding calculation purposes)	Geometric average of the COLAs made during the most recent ten years, rounded to the nearest 0.50% (currently 1.50% per annum)	Geometric average of the COLAs made during the most recent ten years, rounded to the nearest 0.50% (currently 2.00% per annum)

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

	Previous	Current
Cost of Living Adjustments (for GASB calculation purposes)	Geometric average of the COLAs made during the most recent five years (currently 1.44% per annum)	Geometric average of the COLAs made during the most recent five years (currently 1.52% per annum)

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

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

**COST-SHARING DEFINED BENEFIT PENSION SCHEDULES & NOTES
FOR THE YEAR ENDED JUNE 30, 2019**

TABLE 1--PROPORTIONATE SHARE OF COLLECTIVE LIABILITY

Measurement Date - June 30	2018	2017	2016	2015	2014
City's Financial Reporting Date - June 30	2019	2018	2017	2016	2015
NONHAZARDOUS PLAN					
Proportionate share percentage	0.858480%	8.773700%	0.080160%	0.081660%	0.079420%
Proportionate share amount	\$ 5,228,405	\$ 6,476,996	\$ 3,946,977	\$ 3,510,870	\$ 2,576,677
Covered Payroll	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523	\$ 1,642,702
Collective share of NPL as % of payroll	260.96%	327.30%	209.53%	193.06%	156.86%
Plan's fiduciary net position as a percentage of total pension liability	53.54%	52.80%	59.00%	59.97%	66.80%
HAZARDOUS PLAN					
Proportionate share percentage	0.894096%	89.396100%	0.863610%	0.909610%	0.896320%
Proportionate share amount	\$ 21,623,327	\$ 25,146,876	\$ 14,819,031	\$ 13,963,426	\$ 10,772,225
Covered Payroll	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643	\$ 4,001,725
Collective share of NPL as % of payroll	401.27%	505.10%	308.47%	293.00%	269.19%
Plan's fiduciary net position as a percentage of total pension liability	49.26%	48.10%	57.41%	57.52%	63.46%
Proportionate share (amounts)					
Nonhazardous	\$ 5,228,405	\$ 5,135,516	\$ 3,946,977	\$ 3,510,870	\$ 2,576,677
Hazardous plan	21,623,327	20,000,398	14,819,031	13,963,426	10,772,225
Total proportionate share	<u>\$ 26,851,732</u>	<u>\$ 25,135,914</u>	<u>\$ 18,766,008</u>	<u>\$ 17,474,296</u>	<u>\$ 13,348,902</u>

TABLE 2--CONTRIBUTIONS

Measurement Date - June 30	2018	2017	2016	2015	2014
City's Financial Reporting Date - June 30	2019	2018	2017	2016	2015
NONHAZARDOUS PLAN					
Required Contributions	\$ 308,096	\$ 297,996	\$ 227,751	\$ 243,800	\$ 250,345
Contributions Recognized by Plan	308,096	297,996	227,751	243,800	250,345
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734	\$ 1,818,523	\$ 1,818,523
Contributions as Percentage of Payroll	15.38%	15.06%	12.09%	13.41%	13.77%
HAZARDOUS PLAN					
Required Contributions	\$ 1,105,691	\$ 1,065,385	\$ 912,949	\$ 983,018	\$ 988,321
Contributions Recognized by Plan	1,105,691	1,065,385	912,949	983,018	988,321
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031	\$ 4,765,643	\$ 4,765,643
Contributions as Percentage of Payroll	20.52%	21.40%	19.00%	20.63%	20.74%

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

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

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

**COST-SHARING DEFINED BENEFIT OPEB SCHEDULES & NOTES
FOR THE YEAR ENDED JUNE 30, 2019**

TABLE 1--PROPORTIONATE SHARE OF COLLECTIVE LIABILITY

Measurement Date - June 30	2018	2017	2016
City's Financial Reporting Date - June 30	2019	2018	2017
NONHAZARDOUS PLAN			
Proportionate share percentage	0.085845%	8.773700%	0.085845%
Proportionate share amount	\$ 1,524,161	\$ 1,763,814	1,763,814
Covered Payroll	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734
Collective share of NPL as % of payroll	76.1%	89.1%	93.6%
Plan's fiduciary net position as a percentage of total pension liability	57.62%	66.40%	69.60%
HAZARDOUS PLAN			
Proportionate share percentage	0.894146%	89.396100%	0.894146%
Proportionate share amount	\$ 6,374,898	\$ 7,390,121	7,390,121
Covered Payroll	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031
Collective share of NPL as % of payroll	118.30%	148.44%	153.83%
Plan's fiduciary net position as a percentage of total pension liability	64.24%	66.90%	72.90%
Proportionate share (amounts)			
Nonhazardous	\$ 1,524,161	\$ 1,763,814	\$ 1,763,814
Hazardous plan	6,374,898	7,390,121	7,390,121
Total proportionate share	<u>\$ 7,899,059</u>	<u>\$ 9,153,935</u>	<u>\$ 9,153,935</u>

TABLE 2--CONTRIBUTIONS

Measurement Date - June 30	2018	2017	2016
City's Financial Reporting Date - June 30	2019	2018	2017
NONHAZARDOUS PLAN			
Required Contributions	\$ 118,194	\$ 101,041	\$ 84,160
Contributions Recognized by Plan	118,194	101,041	84,160
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 2,003,510	\$ 1,978,917	\$ 1,883,734
Contributions as Percentage of Payroll	5.90%	5.11%	4.47%
HAZARDOUS PLAN			
Required Contributions	\$ 426,461	\$ 458,837	\$ 584,655
Contributions Recognized by Plan	426,461	458,837	584,655
Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 5,388,712	\$ 4,978,627	\$ 4,804,031
Contributions as Percentage of Payroll	7.91%	9.22%	12.17%

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

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

**CITY OF WINCHESTER, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

**NOTES TO PENSION REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on an annual basis, based on a measurement two years prior to the City's fiscal year. In July 2013, the amortization period of the unfunded liability was reset to a closed 30 year period. The following actuarial assumptions were revised for the June 30, 2018 valuation:

Salary Increase	Ranges from 3.30% to 11.55%, depending on years of service and classification
Inflation	2.30%
Payroll growth assumption	2%
Investment Rate of Return	6.25%, Net of Pension Plan Investment Expense, including Inflation

Changes of Benefit Terms -

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

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

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF WINCHESTER, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2019

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	FEDERAL & STATE GRANT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:										
Cash and Cash Equivalents	\$ 6,872	\$ 2	\$ 30,463	\$ 222,926	\$ 102,126	\$ 60,765	\$ 36,082	\$ 41,681	\$ 219,480	\$ 720,398
Accounts Receivable	-	18,545	-	-	-	-	-	-	7,617	26,162
Due from Other Funds	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 6,872	\$ 18,547	\$ 30,463	\$ 222,926	\$ 102,126	\$ 60,765	\$ 36,082	\$ 41,681	\$ 227,097	\$ 746,560
LIABILITIES:										
Accounts Payable	\$ -	\$ 18,545	\$ -	\$ -	\$ -	\$ -	\$ 570	\$ 1,700	\$ -	\$ 20,815
Due to Other Funds	-	-	-	-	-	-	-	-	14,102	14,102
TOTAL LIABILITIES	-	18,545	-	-	-	-	570	1,700	14,102	34,917
FUND BALANCES:										
Restricted Fund Balance	6,872	2	-	-	-	-	-	-	212,994	219,868
Committed Fund Balance	-	-	30,463	222,926	102,126	60,765	35,512	39,981	-	491,774
TOTAL FUND BALANCES	6,872	2	30,463	222,926	102,126	60,765	35,512	39,981	212,994	711,642
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,872	\$ 18,548	\$ 30,463	\$ 222,926	\$ 102,126	\$ 60,765	\$ 36,082	\$ 41,681	\$ 227,096	\$ 746,559

The accompanying notes are an integral part of this statement.

**CITY OF WINCHESTER, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2019**

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	STATE ASAP FUND	FEDERAL & STATE GRANT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:										
Taxes	\$ -	\$ 139,675	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,675
Intergovernmental	5,995	-	-	-	-	19,980	-	30,900	110,002	166,877
Investment Income	105	354	1,078	5,815	3,551	2,409	1,142	1,285	5,981	21,720
Other	-	1,821	11,330	40,158	4,676	-	7,535	14,388	-	79,909
TOTAL REVENUES	<u>6,100</u>	<u>141,850</u>	<u>12,408</u>	<u>45,973</u>	<u>8,227</u>	<u>22,389</u>	<u>8,677</u>	<u>46,574</u>	<u>115,983</u>	<u>408,181</u>
EXPENDITURES:										
City Commission	-	-	100	-	-	-	-	-	-	100
Main Street Department	-	-	12,974	8,506	-	-	-	-	-	21,480
Administration	-	-	-	-	-	-	-	-	-	-
Planning	-	-	2,243	-	-	-	-	-	-	2,243
Police Department	-	-	-	-	53,217	20,561	-	52,391	-	126,169
Fire Department	-	-	-	-	-	-	13,721	-	-	13,721
EMS	-	-	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	141,850	-	-	-	-	-	-	110,001	251,852
Capital	-	-	-	-	-	32,311	-	-	-	32,311
TOTAL EXPENDITURES	<u>-</u>	<u>141,850</u>	<u>15,317</u>	<u>8,506</u>	<u>53,217</u>	<u>52,872</u>	<u>13,721</u>	<u>52,391</u>	<u>110,001</u>	<u>447,876</u>
Excess (Deficit) of Revenues over Expenditures	<u>6,100</u>	<u>-</u>	<u>(2,909)</u>	<u>37,467</u>	<u>(44,990)</u>	<u>(30,483)</u>	<u>(5,044)</u>	<u>(5,817)</u>	<u>5,982</u>	<u>(39,695)</u>
OTHER FINANCING SOURCES (USES):										
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>6,100</u>	<u>-</u>	<u>(2,909)</u>	<u>37,467</u>	<u>(44,990)</u>	<u>(30,483)</u>	<u>(5,044)</u>	<u>(5,817)</u>	<u>5,982</u>	<u>(39,695)</u>
Fund Balance June 30, 2018	<u>772</u>	<u>2</u>	<u>33,372</u>	<u>185,459</u>	<u>147,117</u>	<u>91,248</u>	<u>40,557</u>	<u>45,799</u>	<u>207,012</u>	<u>751,338</u>
Fund Balance June 30, 2019	<u>\$ 6,872</u>	<u>\$ 2</u>	<u>\$ 30,463</u>	<u>\$ 222,926</u>	<u>\$ 102,127</u>	<u>\$ 60,765</u>	<u>\$ 35,513</u>	<u>\$ 39,982</u>	<u>\$ 212,994</u>	<u>\$ 711,643</u>

The accompanying notes are an integral part of this statement.

GOVERNMENT AUDITING STANDARDS REPORTS

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

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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
City of Winchester, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Winchester, Kentucky's basic financial statements, and have issued our report thereon dated January 17, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Winchester, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-01 and 2019-02.

City Response to Findings

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

Purpose of this Report

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

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC

Winchester, Kentucky
January 17, 2020

**CITY OF WINCHESTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION II – Financial Statement Findings

2019-01: Budget

- Condition: The Budget Amendment was not published as required by KRS424.240. The amended budget amounts were not amended in the City’s software. The amended Budget ordinance amounts did not reconcile back to supporting documentation.
- Criteria: The City is required to follow KRS statutes. The City financial reports should reflect the approved budget and budget amendments should be reconcilable to supporting documentation.
- Cause: Employee staffing transitions and lack of training and review over financial budgetary reports.
- Recommendation: The City should review procedures over the Budget administrative controls to see if responsible staff are properly trained and that procedures are in place that final budgetary balances are reflected in the City’s financial reporting. .
- Response: Due to the transition of the Finance staff over the last 18 months we were unaware of the fact that this was to be done. This was something Debbie Bailey did that the rest of the office was unaware of. Moving forward all ordinances will be filed by the City Clerk after final reading / approval by the City Commission. Regarding the software not being updated to reflect that amendment again this was in error and we feel the cause of both issues was the loss of institutional knowledge with the retirement of Debbie and lack of training passed on to the rest of the department.

2019-02: Budget

- Condition: The City did not publish the FY 2018 within 30 days after approval by the City Commission in accordance with KRS424.220.
- Criteria: The City is required to follow KRS statutes.
- Cause: Employee staffing transitions and inadequate of communication between City departments.
- Recommendation: The City should review publication requirements in the KRS among the various City Departments heads to ensure the City is compliant.
- Response: Similar reasoning as above, with the finance department staff being unaware of the KRS requirement from the loss of institutional knowledge with the retirement of Debbie Bailey. I do know that former Finance Director Kate Jennings did provide the newspaper with a bound copy of the audit but again was not aware of the fact that the ordinance was to be published. Moving forward all ordinances will be published by the City Clerk to ensure that we the City and Finance Department stay in KRS compliance.