

CITY OF WINCHESTER, KENTUCKY
AUDITED BASIC FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTARY DATA
AND INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2015

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PROFILE OF GOVERNMENT

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

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

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

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

WMU is a municipal utility enterprise fund separate from the City and which has been separately audited. A full discussion of WMU's financial activities can be found in that audit. WMU's audit was prepared by Summers, McCrary, and Sparks, PSC and was accepted by the utility commission on November 19, 2015.

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

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

**CITY OF WINCHESTER, KENTUCKY
JUNE 30, 2015**

OTHER INFORMATION

Emergencies

The City declared a state of emergency (R2015-2) for the February 16, 2015 snow event. We subsequently received \$23,235 for the federal and state share for the cost of mitigating the effects for snow removal. We also declared a state of emergency (R2015-3) for the March 3 snow event, but our area was not included in the federal disaster declaration.

Elected Officials

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

Retirements

The City recognized 10 retirements this past year.

1. Maintenance Technician Marie Boyer retired after 12 ½ years of service.
2. Police Captain James Miller retired after 25 years of service.
3. Police Sergeant Donald Skinner retired after 20 years of service.
4. Police Officer I Detective Michael Wattenberger retired after 18 years of service.
5. Fire Battalion Chief John Byrd retired after 18 years of service.
6. Fire Battalion Chief Byron Schroedel retired after 20 years of service.
7. Fire Training Officer Gregory Beam retired after 20 years of service.
8. Fire Lieutenant James Witt retired after 26 years of service.
9. Fire Lieutenant Harold Howard retired after 18 years of service.
10. Firefighter III/EMT James Flynn retired after 20 years of service.

Recognitions

The City recognized Joy Curtis for achieving the designation of Kentucky Master Municipal Clerk by the Kentucky Municipal Clerks Association.

The City commended Fire Battalion Chief John Byrd and Fire Lieutenant/Fire Marshall Rob Carmichael for attaining the designation of Executive Fire Officer by the National Fire Academy.

ELECTED OFFICIALS

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

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

**CITY OF WINCHESTER, KENTUCKY
JUNE 30, 2015**

CONTACT INFORMATION

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

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

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

SUSAN A. LACY, CPA

LAURENCE T. SUMMERS
1961-1992

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners
City of Winchester, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Winchester, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Winchester, Kentucky, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and capital equipment and federal grant funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-32, the police and firefighter's pension fund on pages 87 and the Schedule of City's Proportionate Share of Net Pension Liability and Schedule of Contributions on pages 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The introductory sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2016, on our consideration of the City of Winchester, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Winchester, Kentucky's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Winchester, Kentucky
January 8, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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

EXECUTIVE SUMMARY

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

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

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

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

Personnel costs include wages, taxes, retirement, and insurance. The City granted a 2% cost-of-living (COLA) for FY2014, FY2015, FY2016. The City's self-insured employee health insurance plan continues to help manage the city's health care costs and keep those benefits on a sustainable level to protect both taxpayers and employees.

Retirement costs are mandated by the state. These rates are what the City pays on employee wages to the state-run retirement system (CERS-County Employees Retirement System). The table below shows how these rates have been increasing. For FY2014 the state granted a temporary one-year reduction. The decrease for FY2015 reflects changes made by the 2013 Kentucky legislature that reset the amortization period of the pension obligations. FY2016 rates are 17.06% for non-hazardous and 32.95% for hazardous employees. Employer contribution rates increased for non-hazardous and decreased for hazardous for FY2017.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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

The total the City paid for retirement costs in FY2015 was approximately \$2 million. We estimate that retirement costs in FY2016 will be about \$2.2 million. In FY2014, local government employers benefitted from the first decrease in employer contribution rates since 2008. Lower rates reflect improved investment performance, changes in health insurance administration, and retirement benefit changes for the County Employees Retirement System.

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

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, 2015

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

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

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

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The Statement of Net position provides a long-term view of the City's financial position. This report includes both capital assets and long term liabilities that outline a more comprehensive view of the City's financial resources. *Net Position* is the difference between total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. This section is further divided into three components: net investment in capital assets, restricted, and unrestricted. *Net investment in capital assets* reflects real estate and personal property less depreciation and the amounts borrowed to purchase those assets. The *restricted* component is subject to constraints imposed by legal restrictions, for specific funds or projects. And, the *unrestricted* component 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, 2015 and 2014.

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 10,239,499	\$ 10,092,824
Capital assets	13,693,147	13,093,210
Total assets	23,932,646	23,186,034
Deferred Outflows-Pensions	2,028,232	
Long-term debt outstanding	2,112,832	2,311,115
Net pension liabilities	14,074,886	13,623,752
Other liabilities	2,139,737	2,185,559
Total liabilities	18,327,455	18,120,426
Deferred Inflows-Pensions	1,347,046	
Net position:		
Net investment in capital assets	11,259,169	10,612,913
Restricted	911,502	847,015
Unrestricted	(5,884,296)	(6,394,320)
Total Net Position	\$ 6,286,376	\$ 5,065,608

Total Assets increased \$746,100. Most of this change was an increase in Capital Assets of \$600,000. The addition to capital assets includes the purchase of land for \$158,200 and construction in progress of \$235,200 for the CDBG Disaster Recovery Grant and Maple/Boone Sanitary/Storm Sewer Project. The remaining \$393,400 includes departmental additions (vehicles, ambulance, and equipment).

Current and Other Assets increased about \$146,800. Cash increased about \$623,200. Most of these cash increases included General Fund (\$382,000), Health Insurance (\$76,400), Capital Equipment Fund (\$32,000), and Municipal Aid Program (\$80,400), Police Federal Forfeiture (\$64,400). However, these increases in cash were offset by the decrease in accounts receivables. These receivables include: General Fund Payroll Tax (\$196,600); General Fund EMS (79,200); and Capital Equipment Fund Accounts Receivable Other (\$275,100).

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Net Investment in Capital Assets increased about \$646,256 with the additional fixed asset purchases that exceeded depreciation expense along with the retirement of capital-related debt. These additional fixed assets included computer and radio equipment for Communications; computer, vehicles and equipment for Police; ambulance and equipment for EMS; and a heavy-duty vehicle for Public Works.

At year-end, on-going engineering costs for the Fulton Road, Seventh Street and Downtown Mast Arms projects are still in construction.

Long-term Debt Outstanding decreased \$198,283 because we paid down debt service and did not borrow any additional funds during this fiscal year.

The most significant changes in the City's Statement of Net Position are related to recognition of net pension liabilities and related balances. FY2015 now includes deferred outflows and deferred inflows of resources to reflect the City's implementation of GASB Statement No. 68. In addition, GASB Statement No. 68 required the city to recognize its collective share of the net pension liability in the cost-sharing County Employees Retirement System. The amounts listed above include amounts for both the cost-sharing County Employees Retirement System plan and the city's single-employer Policemen's and Firemen's Pension Fund which are detailed in the following table.

Describe	CERS	P&F	Total	WMU
Deferred Outflows	\$ 1,933,943	\$ 94,289	\$ 2,028,232	\$501,398
Deferred Inflows	1,347,046		1,347,046	416,200
Net Pension Liability	13,348,901	725,985	14,074,886	3,728,580
Prior Period Adjustment	13,011,417	80,300	13,091,717	847,712
Pension expense	1,715,488	29,361	1,744,849	3,219,524

Also included in Payroll and Related Liabilities is about \$895,000 attributable to an issue with firefighter overtime and state incentive pay. In 2007, the KY Court of Appeals ruled that the City of Louisville had to pay overtime on the state supplement based on a 40-hour work week. This ruling was in contradiction to the directions that had been provided by the KY Department of Labor. Winchester, along with several other cities, filed a lawsuit challenging the authority of the KY Department of Labor to enforce the Louisville decision. In August, 2012, the KY Supreme Court rejected those arguments.

On December 21, 2012, the Kentucky Labor Cabinet notified the City, that during its ongoing investigation into the City Fire Department's compliance with the Kentucky wage and hour laws, the Fire Department failed to compensate employees time and one-half. On January 12, 2015, the City issued payment for back wages totaling \$62,530 to employees specified by the Kentucky Labor Cabinet.

The remaining group of firefighters filed suit against the City in Clark Circuit Court to recover the overtime compensation. At year end, The City was defending its position that overtime compensation was correctly paid.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The City's estimated liability for back-pay, retirement, and taxes is now estimated at about \$895,000, including the related contributions to CERS for the back-pay. This liability is included on the government-wide financial statements, but not on the fund-wide statements. The City settled this litigation in October 2015.

The City's unrestricted net position is decreased as a result of the GASB Statement No. 68 implementation discussed earlier. The deficit position reflects the city's responsibility to provide future resources to fund the pension liabilities.

Statement of Activities

The Statement of Activities provides the operating results for all funds of the City, plus the component unit, Winchester Municipal Utilities, again using the accrual basis of accounting. This statement adds depreciation expense for each department but excludes the capital asset purchases. Another important feature of this report is the emphasis on *programs*. 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.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The following table summarizes the Statement of Activities for 2015 and 2014.

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,305,283	\$ 1,347,587
Grant funding	2,687,185	1,927,517
Capital contributions	400,553	167,895
General revenues:		
Property taxes	2,347,433	2,374,886
License fees and permits	985,561	1,059,470
Payroll taxes	7,739,512	7,546,048
Insurance premium tax	2,144,844	2,090,294
Transient room tax	143,273	116,471
Other taxes	116,328	116,338
Interest and investment earnings	49,152	43,223
Parking fines	1,865	1,390
Other local revenues	166,129	149,353
Gain(Loss) on Disposal of Fixed Assets	-	
Total Revenues	18,087,117	16,940,472
Program Expenses:		
General government	3,225,376	3,202,367
Public Protection		
Dispatch	880,828	799,230
Police	3,571,596	3,887,287
Fire	4,469,490	3,967,061
EMS	2,236,864	2,331,394
Public Services	1,491,674	1,498,144
Intergovernmental services	910,352	821,755
Interest on long-term debt	80,166	85,664
Total Expenses	16,866,348	16,592,902
Excess (deficiency) before transfers and special items	1,220,769	347,570
Loss on disposal of fixed assets	-	(8,467)
Net increase (decrease) in net position	\$ 1,220,769	\$ 339,103

Total Revenues increased \$1,146,600. Charges for Services (EMS revenue) decreased slightly. This revenue fluctuates because of accounts receivable and provider payments. Also, the Affordable Care Insurance Act affects this revenue.

Grant Funding increased about \$760,000. Most of this increase includes General Fund Nonpoint Source Pollution Grant (\$50,300), General Fund Fiscal Court Dispatch Reimbursement (\$27,200), General Fund Fiscal Court EMS Reimbursement (\$69,200), and Police Federal Forfeiture (\$75,000).

Capital contributions increased \$232,600. Most of this increase includes the purchase of an ambulance and the CDBG Disaster Recovery construction.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

General Revenues include an increase in Payroll taxes (\$193,500) and Insurance Premium taxes (\$54,600). However, Licenses and Permits decreased \$73,900. Most of this decrease comes from the Occupational License Fee (\$48,600)

Total expenses increased \$273,400. Dispatch expenses were higher because all the positions were not filled during the year, which increased overtime. The Fire Department had higher overtime and retirement expenses.

Governmental Funds Balance Sheet

The following table summarizes the Governmental Funds Balance Sheet for 2015 and 2014.

	2015	2014
Assets:		
Cash and Cash Equivalents	\$ 8,267,676	\$ 7,644,440
Accounts Receivable	1,994,411	2,473,616
Prepaid Expenses	7,080	6,464
Other Assets	-	
Total Assets	<u>\$ 10,269,167</u>	<u>\$ 10,124,520</u>
Liabilities:		
Accounts Payable	\$ 77,918	\$ 383,686
Accrued Payroll & Related Liabilities	674,145	572,127
Accrued TIF Incentive Payable	48,913	
Due to Other Funds	29,668	31,696
Total Liabilities	<u>830,645</u>	<u>987,509</u>
Fund Balances:		
Nonspendable		
Restricted	911,502	847,015
Committed	2,914,521	2,714,853
Assigned	751,729	675,294
Unassigned	4,860,769	4,899,849
Total Fund Balances	<u>9,438,521</u>	<u>9,137,011</u>
Total Liabilities & Fund Balance	<u>\$ 10,269,167</u>	<u>\$ 10,124,520</u>

As noted previously, Cash and Cash Equivalents increased \$623,200. Current and Other Assets (cash) increased about \$646,300. Accounts Receivable decreased \$479,200. Most of this decrease comes from the loan receivable for cardiac monitors in FY2014 that was collected during FY2015. Also, there were decreases in payroll tax receivables of \$196,600 and EMS receivables of \$79,200.

Current liabilities increased \$117,100, but the changes in specific liabilities include both increases and decreases. As stated above, the account payable for the cardiac monitors were financed in FY2014, received in FY2014, but not paid until FY2015. Accrued payroll was understated in FY2015, with \$274,000 of the June payroll omitted from the accruals for FY2015 (see Note 20). A new accrual in FY2015 represents amounts due to employers participating in the City's Tax Increment Financing program.

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

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

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

Restricted funds increased \$64,500, representing obligations for grant projects that have not been completed (Fulton Road, Seventh Street, and Downtown Mast Arms). Committed funds increased \$202,700, primarily because of the increased payroll taxes. Assigned Funds include the self-insured health insurance and these funds increased \$76,500. Unassigned funds (General Fund) decreased \$39,000.

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

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

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The following table summarizes the *Statement of Revenues, Expenditures, and Changes in Fund Balance* for 2015 and 2014.

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
REVENUES:		
Taxes	\$ 12,491,389	\$ 12,244,037
Licenses & Permits	985,561	1,059,470
Charges for Services	1,305,283	1,347,587
Fines	1,865	1,390
Intergovernmental	2,374,778	2,095,412
Investment Income	49,152	43,223
Other	166,125	149,353
TOTAL REVENUES	17,374,153	16,940,472
EXPENDITURES:		
General Government	2,604,611	2,532,302
Public Safety	10,688,276	10,414,540
Public Works	1,410,051	1,389,791
Intergovernmental	910,352	821,755
Capital	1,097,619	688,713
Debt service principal	281,566	254,086
Debt service interest	80,166	85,664
TOTAL EXPENDITURES	17,072,642	16,186,852
Excess (Deficit) of Revenues over Expenditures	301,511	753,620
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term borrowing		265,589
TOTAL OTHER FINANCING SOURCES (USES):		265,589
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	301,511	1,019,209
Fund Balance, beginning	9,137,011	8,117,802
Fund Balance, ending	\$ 9,438,522	\$ 9,137,011

The difference between revenues and expenses show how total fund balance has changed since last year. Total fund balance increased \$301,511. Most of this fund balance is in the Capital Equipment Fund and Non-Major Governmental Funds. However, the General Fund increased only \$37,500. This is a huge decrease from the previous year. Last year's General fund balance increased \$925,500. That was mostly due to the increase payroll tax. The prior period adjustment, as we noted earlier, reflects payroll accruals that were omitted from the June 2015 accruals.

Capital and Operating Activities

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

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FY 2015 Governmental Activities			
	Capital	Operating	Total
Revenues	\$ 1,222,770	\$ 16,151,382	\$ 17,374,153
Expended	(1,090,355)	(15,982,287)	(17,072,642)
Net	\$ 132,416	\$ 169,095	\$ 301,511

FY 2014 Governmental Activities			
	Capital	Operating	Total
Revenues	\$ 1,289,507	\$ 15,916,554	\$ 17,206,061
Expended	(981,815)	(15,205,037)	(16,186,852)
Net	\$ 307,692	\$ 711,517	\$ 1,019,209

Capital revenues are primarily occupational license fees (1/8 share provided by ordinance). Operating revenues decreased while expenses increased.

The City finished another year with surplus. The surplus is across all funds. As noted previously, the General Fund surplus was only \$37,500. The FY2016 surplus/deficit in the operating fund will depend on increases in revenues and/or decreases in expenses.

BUDGETARY HIGHLIGHTS

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

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

Most of the general fund under-budget difference (under budget by \$783,000) is attributed to Charges for Services, which includes Reimbursable Grant Income and EMS Revenue. A major component of the budgeted Reimbursable Grant Income is the CDBG Disaster Recovery Grant (\$621,000). The only grant activity for the year is engineering costs. This project was budgeted in General Fund because it was thought to be a reimbursable grant. However, the grant is not reimbursable but stands alone in the Special Revenue Fund (Federal & State Grant Funds). This is also why Public Works expenses came in under budget. At year end, reimbursable grants revenue and expenses are transferred to federal, state, and local grant financial statements.

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

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

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

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

The first budget amendment added the following:

1. Added \$27,000 to GF expenses for an economic development project.
2. Added \$52,000 to CEF expenses for radio equipment and motor vehicle.
3. Added \$265,000 to CDBG and Other Grants that were awarded.

The second budget amendment added the following:

1. Added \$201,000 to GF expenses for economic development projects.
2. Added \$290,000 to GF expenses (Fire and EMS) for additional salaries, wages and benefits due to additional overtime for understaffing
3. Added \$4,500 for additional transfers to other agencies.

MAJOR CAPITAL PROJECTS FOR THE YEAR

Capital assets provide an important resource for supporting a variety of governmental programs and services. The City uses local tax revenues as well as federal and state grant funding to help finance critical infrastructure and public property improvements. During FY2015, the City was working on the following capital projects to enhance public programs and services.

Buildings and Land

In FY2015, the City made various improvements/repairs to City Hall, the Police Department building, three Fire stations, and the Public Works buildings at a total cost of about \$70,500. A large part of this was the kitchen renovation at Ecton Station #1 and sealing and striping for fire station lots.

The City purchased 24 North Highland Street, a warehouse type building, for \$158,180. The plan is for storage of city property and storage for Clark County Parks & Recreation (parks). Subsequently the city and parks entered into a ten-year lease agreement by Order No. 2015-91.

The training tower at Station #3 was built in 1992 at a cost of \$91,500. The state of Kentucky provided \$50,000 and the City provided \$41,500. Over the years, the training tower had deteriorated. In 2013, a structural engineer deemed the building unsafe. On September 9, 2013, an order was approved to demolish the building. During the year, a geological technical survey was done at the site. At this time, it is cost prohibitive to rebuild a training tower.

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Curbs, Gutters, Sidewalks, Other

There were no projects in FY2015.

Storm Sewer Projects

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

The City and WMU have known about the problems with the Maple Street sanitary sewer. On July 16, 2013, the Commission approved Order No. 2013-110 to execute a Memorandum of Understanding (MOA) with WMU for the Maple Street Sanitary and Storm Sewer Water Improvement Project. The City will reimburse WMU for the engineering and construction costs related to the storm sewer portion of the project. On September 30, 2013, the City approved Order #2013-143 to execute a Memorandum Of Understanding to pay \$48,356 to WMU for engineering costs related to the project. The City has paid \$43,965 to WMU for our portion of the project.

1. \$24,802 on 04-28-2014
2. \$5,833 on 06-29-2014
3. \$10,241 on 08-14-2014
4. \$3,089 on 12-18-2014

The project was bid out and approved for construction on 11-17-2015. The total construction costs for the project are \$538,656. The City's share of the cost for the storm water component is \$414,531. Construction should begin January, 2016.

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

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

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The Bluegrass Area Development District is administering the grant. Construction began January 20, 2015, and is on-going. At June 30, we have spent \$62,141 on administration/engineering costs and \$118,057 on construction costs. Following is an outline of actions and costs:

1. Order No. 2013-118 awarding an engineering contract
2. Order No. 2014-31, May 6, 2014, an amendment to extend the completion date from June 30, 2014 to June 30, 2015
3. Order No. 2015-2, January 6, 2015, awarding a construction contract
4. Order No. 2015-76, May 26, 2015, an amendment to extend the completion date to March 30, 2016

Four other projects have been identified: (1) Blanton Alley storm drain; (2) East Washington/Jackson streets; (3) East Washington/Franklin streets; and (4) West Washington culvert rehabilitation. The first project was completed at a cost of \$37,569. The next three projects are in the engineering stage and easement acquisition. Engineering/construction costs to date are:

1. \$37,569 for Blanton Alley storm drain
2. \$4,350 for Washington/Jackson
3. \$10,910 for Washington/Franklin

Roads and Bridges

The City street system consists of approximately 80 miles of two-lane paved roads and alleys. The City also contains some state roads and it is the state's responsibility to maintain those roads. The City uses Municipal Aid Program Funds (from the state) to maintain city streets. The City spent \$263,100 to maintain city streets (paving).

The City accepted four streets into the City street system. On October 21, 2014, the City accepted Patio Street (437 feet) and Alene Court (267 feet) at a combined asset value of \$93,313. On February 3, 2015, the City accepted Croxton Way (1,105 feet) and Hospital Drive (288 feet) at a combine asset value of \$619,647. It is City policy to accept streets into the system on the condition that the developer is responsible for repairs to the streets for one year following acceptance.

KY Department of Transportation JL-04 Bond Fund

In FY2011, the City applied to the Kentucky Department of Transportation (KDOT) for JL-04 bond funds for three projects: (1) Fulton Road Extension Project; (2) Seventh Street Relocation Project; and (3) Downtown Mast Arms. The state has approved \$585,000 for the Fulton Road project – design, right-of-way acquisition, and utility relocation. The state has approved \$240,000 for the Seventh Street project – design. Contracts for the first phase of these two projects (engineering) were awarded June, 2011. As of June 30, 2015, the engineering and appraisal costs on these two projects were \$131,100 and \$197,800 respectively.

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When these first phases are completed, the state will consider additional funding for the second phases of these projects (Fulton Road Phase II - \$415,000 and Seventh Street Phase II - \$260,000). On April 15, 2014, Order No. 2014-25 was approved with the KDOT for \$160,000 for the downtown mast arms project. An engineering contract was approved July 15, 2014. So far, we have spent \$10,583 for engineering costs. State and city engineers are currently working on the plans and land acquisition for the Fulton Road Extension Project.

Kentucky State Road Projects

The Lexington Avenue/U.S. 60 corridor is not a city-owned street. But it is worth mentioning that the state began working on the street early in 2015. The existing sidewalks, curb, and guttering were replaced first. Then the entire road was rebuilt. Construction of the road began in the spring and was finished in the fall.

The state also advised us that two major intersections will be improved with new turn lanes: (1) Redwing Drive and the Bypass, Kentucky 1958 (2) and Lexington Avenue and the Bypass, Kentucky 1958). Also, a railroad bridge at Maple Street will be painted.

The Mountain Parkway/I-64 exit/interchange is in the design phase and construction is on schedule to start in 2016. The designs and appraisals of land needed for the extension of the Veterans Memorial Parkway should be completed by March and construction should begin in 2016. The Kentucky Transportation Cabinet included this final section of the Winchester Bypass with \$42.4 million in the 2014-2020 six-year highway plan.

Franchise

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

Annexation

The City did not annex any property.

Land Improvements

There were no major land improvements in FY2015.

BONDS

The City authorized the issuance of utility revenue bonds for Winchester Municipal Utilities on December 2, 2014. The principal amount is \$9,915,000, which will be used for extensions and improvements to the combined and consolidated municipal waterworks, sanitary sewer, and solid waste disposal systems. Further information can be found in the Winchester Municipal Utilities audit.

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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 FY2015, the City applied for several grants. Listed below is the status of grant applications.

1. Transportation Enhancement Act 21 (TEA-21), Welcome Center Revitalization for the Sphar & Company Seed Building, Joint City and County, \$1 million, approved
2. Kentucky Homeland Security Grant, Armor Vests and Plates, \$6,606, pending, subsequently approved
3. Assistance to Firefighters Grant, Tower Ladder Fire Apparatus, \$1 million, Local Match \$100,000, approved
4. Assistance to Firefighters Grant, Haz-Mat Suits, \$25,000, denied
5. Kentucky Homeland Security Grant, Microwave Link Project, \$10,700, approved
6. Kentucky Fire Commission, Training Facilities Multipurpose Building, \$450,000, denied
7. Kentucky Fire Commission, Thermal Imaging Camera, \$3,200, approved
8. Kentucky Office of Homeland Security Grant, Radio Repeater and Software, \$26,300, denied
9. Kentucky Department of Local Government Recreational Trails Program, \$55,530, pending
10. Kentucky Department of Local Government, Winchester Youth Soccer Complex Restroom/Concession Project, \$75,000, approved

The following grants were received prior to FY2015 and are still ongoing.

1. CDBG Disaster Recovery Program Grant, \$621,000, culvert reconstruction
2. Kentucky Nonpoint Source Pollution Control Grant, Lower Howard's Creek Watershed Improvement Initiative, \$303,709 (60/40 match)
3. Kentucky CMRS Grant, Upgrade 911 Phone System, \$140,000

Five grants were completed and closed out during FY2015.

1. Kentucky Department of Transportation, Highway Safety Grant, Click It or Ticket, \$2,000
2. Kentucky Department of Transportation, Highway Safety Grant, Impaired Driving, \$4,000
3. Kentucky Homeland Security Grant, Fire/EMS Communications Equipment, \$34,000
4. Kentucky Homeland Security Grant, Microwave Link Project, \$10,700
5. Kentucky Fire Commission Grant, Thermal Imaging Camera, \$3,200

STORMWATER CONCERNS

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

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

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The city has two employees designated to carry out the requirement of the stormwater programs. They have conducted training, done field pre- and post- inspections of construction sites, and instituted plantings to help reduce stormwater flows. The City also contracts with an engineering consulting firm for technical expertise and program support. The City is in compliance with all permit requirements at this time. The following ordinances have been adopted as part of the MS4 permit requirements.

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

ECONOMIC DEVELOPMENT

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

The BCTC Winchester-Clark County Campus continues to add value to our community. The college provides workforce training for companies in Clark and surrounding counties. Over 400 students were enrolled during the fall of 2014. During the fall of 2014, the college instituted the 1+1 Integrated Engineering Technology class. This project provides one year of college classwork in high school and one year of college classwork after graduation to obtain an associate's degree in industrial maintenance.

The college offers two associate degrees and four technical programs. The college also provides instruction and testing for people pursuing their General Education Diploma (GED). The college has an on-sight childcare facility and has also added a 600-seat outdoor amphitheater, in addition to the existing walking trail, and was christened THE GREEN Trail & Amphitheater. This outdoor public space has been used for several special events. We have several businesses/manufacturers that operate in the City and continue to thrive. The following companies (outside of the industrial park) employ almost 1,700 people:

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

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

Economic development continues to increase. We began the fiscal year with a 6.2% unemployment rate (down from 7.1% at the same time last year) and ended the fiscal year with a 5.4% unemployment rate. Not since April of 2008 has the unemployment rate (5.3%) been this low. Our per capita income is about \$36,842 and household income is about \$45,116.

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

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

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.

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In FY2015, we approved Resolution #R2014-13 (10-21-2014) for a ten-year agreement with Senko and Resolution 2015-1 (03-03-2015) for a ten-year agreement with AMZN wacs, Inc. We now have eight local participation agreements – Alltech, AMZN wacs, Catalent, Caudill Seed, General Dynamics, Senko, Taica, and Walle. The table shows the activation dates. That is when the term begins for each project. Alltech activated their project July 1, 2014. AMZN WACS activated their project April 1, 2015.

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

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

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

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

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RECIPIENT	PROGRAM	TOTAL PROJECT COST	MAX TAX INCENTIVE AUTHORIZED	STARTING JOBS	ESTIMATED NEW JOBS	AGREEMENT DATE	OCC LICENSE TAX PLEDGED	ACTIVATION DATE
Advanced Green Components LLC	KBI	\$11,960,000	\$750,000	80	40			
Alltech Inc	KBI	\$14,000,000	\$3,000,000	NA	40	Reso #R2012-6 6/19/2012 Term 10 yrs	1%	6/28/2014
AMZN wacs Inc	KBI	\$20,411,340	\$10,250,000	NA	550	Reso #R2015-1 3/3/2015 Term 10 yrs	1%	3/26/2015
Catalent Pharma Solutions LLC	KBI	\$46,800,000	\$2,000,000	307	90	Reso #R2013-6 11/5/2013 Term - 10 yrs	1%	12/12/2015
Caudill Seed & Warehouse Co Inc	KBI	\$775,000	\$300,000	NA	18	Reso #R2014-6 5/19/2014 Term - 10 yrs	1%	6/26/2016
Harry Gordon Steel Company	KBI	\$5,572,000	\$300,000	20	24			
J&T Munitions Inc dba J&T Distributing	KBI	\$3,615,800	\$200,000	NA	15			
J&T Munitions Inc dba J&T Distributing	KIDA	\$998,000	\$240,000	24	15			
Sekisui S-LEC America, LLC	KIDA	\$43,240,000	\$1,600,000	NA	80			
Senko (USA) Inc	KBI	\$7,575,000	\$250,000	NA	16	Reso #R2014-13 10/21/2014 Term 10 years	0.50%	
Taica Corporation	KBI	\$8,049,232	\$500,000	NA	30	Reso# R2014-5 5/6/2014 Term 10 yrs	0.50%	
The Freeman Corp	KBI	\$3,440,000	\$500,000	202	32			
General Dynamics (Vangent)	KBI	\$12,000,000	\$2,500,000	NA	150	Reso #R2014-4 3/17/2014 Term - 10 yrs	1%	7/31/2016
Walle Corporation	KBI	\$4,135,000	\$500,000	114	23	Order #2012-117 10/12/2012 Term - 10 yrs	1%	6/26/2016
KBI - Kentucky Business Investment Program KIDA - formerly KBI								

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Industrial Park

Several companies at the Industrial Park have invested in expansion projects or built new facilities. J&T Munitions completed their 40,000 square-foot expansion and will add on again. Univance also completed their additional expansion. We are working with Senko as they review adding on to their building. Rocky Mountain ATV began their expansion mid-to-late 2015. These expansions have added more jobs for our community.

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

The Industrial Park includes the following companies and employs over 2,850 people.

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

- 34. Walle Corporation
- 35. Winchester Coatings
- 36. Winchester Farms Dairy

Other Development

Also, WCC-IDA is still focused on commercial, retail, and restaurant development. Our community continues to see results from our involvement with the Winchester Plaza redevelopment. About three years ago, the city and county created a TIF district in the area around Winchester Plaza. (See *Tax Increment Financing*) There are five retailers and one new restaurant. The theater was completely renovated. These businesses continue to thrive. Discussions are continuing for potential new development. The TIF district has been a success.

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

The City finished the Depot Street Project two 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. This building is over 130 years old and will be re-purposed for a Winchester and Clark County Welcome Center. We will receive additional funding from the Clark County Fiscal Court in the form of a \$500,000 CDBG grant.

The Daniel Boone Pioneer Festival has been in existence for 37 years. The festival is held on Labor Day weekend and it is a huge success every year. The festival showcases our local talent, artists, and "Kentucky Proud" vendors. We are proud that the Southeast Tourism Association has named it as one of the top 10 festivals in Southern United States.

The City continues efforts to strengthen the downtown area. The Winchester First Board, along with the Downtown Business Association, is striving to improve the downtown area. The City had its 7th Beer Cheese Festival on June 13, 2015. This festival also highlights local talent, artists, and "Kentucky Proud" items. This festival has also been a huge success.

Last year, Winchester First began a mural project for the downtown area. Three years ago, local artists painted an historical mural on the side of a hardware business. Two years ago, those same artists painted another historical mural on the side of grocery store facing Depot Street. Last year the artists painted an historical mural on the side of a pharmacy that can be seen from KY627. This year, the artist painted another historical mural on the Winchester Sun building, also seen from KY627. These murals have improved our downtown beauty. Winchester First is also working on a loan program to aid downtown investment.

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 five years ago. Business activity in the area continues to thrive. However, since Amazon moved into their permanent building, the corresponding drop in payroll taxes greatly decreased the 2014 payment to the developer. However, all the store fronts are filled. Winchester Plaza is still an improved anchor for our community. The following table summarizes the City's pledge to date.

WINCHESTER PLAZA TIF DISTRICT	
2010-2011	\$14,884.45
2012	\$39,667.40
2013	\$17,014.70
2014	\$3,331.72
Total Payments to Date	\$74,898.27

REVENUE SHARING

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 - 1st qtr	\$64,452
Total Payments to Date	<u>\$581,746</u>

GASB STATEMENT NO. 68

The City recognizes the authority of the Governmental Accounting Standards Board (GASB), however we strongly object to the implementation of GASB Statement No. 68. This statement requires the city (and all municipalities) to recognize its collective share of the net pension liability in the cost-sharing County Employees Retirement System. Our FY2015 statements now include deferred outflows and deferred inflows of resources. The amounts listed in the Governmental Activities 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 employees of this City, by state statute, belong to the County Employees Retirement System. The City and the employees both contribute to this plan. The contribution rates are set by the state. When these employees retire, the state pays their retirement based on their salary and years of service. It is not the duty of the city to pay the employees' once they retire. That is the state's responsibility. This pronouncement distorts the City's financial statements and leaves us subject to higher borrowing and bond issue interest rates.

ECONOMIC CONDITION AND OUTLOOK

The City of Winchester is located 15 miles east of Lexington. The City has experienced residential growth on the west side of Clark County, due to its proximity to the Bypass and the City of Lexington. The City anticipates that development of the Veteran's Memorial Parkway will bring about balanced residential and business growth on the east side of Clark County. Economic development continues to increase.

We began the fiscal year with a 6.2% unemployment rate (down from 7.1% at the same time last year) and ended the fiscal year with a 5.4% unemployment rate.

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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

The City did not approve the maximum allowable real property tax rate for calendar year 2014. The rates were the same as the previous year. The FY2015 budget was based on the maximum allowable rate, so this revenue was under budget expectations.

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

Personnel costs consume about 75% of the General Fund budget. These costs will continue to rise for two main reasons: (1) the possibility that the state retirement system will increase mandated pension rates upon Kentucky cities that are not sustainable in the long-run for our community; and (2) health insurance costs continue to rise.

During our FY2015 budget preparations, we based our revenue projections on some major private investments in our community. Based on better revenue projections for FY2015, a 2% COLA was granted to employees. This was very important to our employees. We are a service organization and retaining qualified employees is essential for public safety and administration.

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

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

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

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

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

**CITY OF WINCHESTER, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015**

CONTACTING THE CITY'S FINANCIAL TEAM

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	<u>PRIMARY GOVERNMENT</u>		<u>COMPONENT UNIT</u>
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>TOTAL</u>	
ASSETS:			
Current Assets			
Cash and Cash Equivalents	\$ 8,267,676	\$ 8,267,676	\$ 9,658,812
Restricted Cash and Cash Equivalents	0	0	362,935
Accounts Receivable			
Taxes	1,465,527	1,465,527	
Accounts, net	194,479	194,479	1,985,124
Intergovernmental	298,943	298,943	0
Other	5,794	5,794	49,075
SDC Receivables	0	0	482,000
Prepaid Expenses	7,080	7,080	515,391
Accrued Interest	0	0	241
Inventories	0	0	357,718
Total Current Assets	<u>10,239,499</u>	<u>10,239,499</u>	<u>13,411,296</u>
Restricted Assets			
Cash and Cash Equivalents	0	0	16,151,755
Total Restricted Assets	<u>0</u>	<u>0</u>	<u>16,151,755</u>
Noncurrent Assets			
Construction in Progress	669,767	669,767	7,604,754
Land	2,152,683	2,152,683	1,519,050
Net Capital Assets	10,870,696	10,870,696	106,078,397
Total Noncurrent Assets	<u>13,693,147</u>	<u>13,693,147</u>	<u>115,202,201</u>
TOTAL ASSETS	<u>\$ 23,932,646</u>	<u>\$ 23,932,646</u>	<u>\$ 144,765,252</u>
DEFERRED OUTFLOWS OF RESOURCES-PENSONS	<u>\$ 2,028,232</u>	<u>\$ 2,028,232</u>	<u>\$ 501,398</u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 77,918	\$ 77,918	\$ 491,261
Other Accrued Liabilities	48,913	48,913	162,595
Accrued Payroll & Related Liabilities	1,579,317	1,579,317	0
Customer Deposits	0	0	147,969
Accrued Interest Payable	0	0	99,336
Current Portion of Bonds	0	0	3,499,036
Incurred but Not Reported Health Claims	162,837	162,837	
Current portion of Lease Obligations	270,751	270,751	0
Total Current Liabilities	<u>2,139,737</u>	<u>2,139,737</u>	<u>4,400,197</u>
Noncurrent Liabilities			
Noncurrent Portion of Lease Obligations	1,493,460	1,493,460	0
Noncurrent Portion of Bonds	0	0	69,436,092
Accrued Sick Leave	619,373	619,373	484,589
Net Pension Liability	14,074,886	14,074,886	3,728,579
Total Noncurrent Liabilities	<u>16,187,718</u>	<u>16,187,718</u>	<u>73,649,260</u>
TOTAL LIABILITIES	<u>18,327,455</u>	<u>18,327,455</u>	<u>78,049,457</u>
DEFERRED INFLOWS--PENSIONS	1,347,046	1,347,046	416,200
NET POSITION			
Net Investment in Capital Assets	11,259,169	11,259,169	42,267,073
Restricted	911,502	911,502	0
Restricted for Capital Projects	0	0	14,709,500
Restricted for Bond Debt Service	0	0	1,647,717
Unrestricted	(5,884,296)	(5,884,296)	8,176,703
TOTAL NET POSITION	<u>\$ 6,286,376</u>	<u>\$ 6,286,376</u>	<u>\$ 66,800,993</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	TOTAL	
Primary Government							
Governmental Activities:							
General Government	\$ (3,225,376)	\$ 90,411	\$ 738,435	\$ 37,015	\$ (2,359,515)	\$ (2,359,515)	
Public Safety:							
Dispatch	(880,828)	0	552,803	19,126	(308,899)	(308,899)	
Police	(3,571,596)	0	301,697	33,984	(3,235,916)	(3,235,916)	
Fire	(4,469,490)	0	210,192	10,700	(4,248,598)	(4,248,598)	
EMS	(2,236,864)	1,214,872	330,965	150,338	(540,689)	(540,689)	
Public Works	(1,491,674)	0	532,593	149,390	(809,692)	(809,692)	
Intergovernmental Services	(910,352)	0	20,500	0	(889,852)	(889,852)	
Interest on Long-Term Debt	(80,166)	0	0	0	(80,166)	(80,166)	
Total Governmental Activities	(16,866,348)	1,305,283	2,687,185	400,553	(12,473,327)	(12,473,327)	
Total Primary Government	\$ (16,866,348)	\$ 1,305,283	\$ 2,687,185	\$ 400,553	\$ (12,473,327)	\$ (12,473,327)	
Component Unit							
Winchester Municipal Utilities	\$ (15,764,156)	\$ 16,914,013	\$ 62,758	\$ 204,955			\$ 1,417,570
			General Revenues:				
			Taxes:				
			Property	\$ 2,347,433	\$ 2,347,433	\$ 0	0
			Licenses & Permits	985,561	985,561	0	0
			Payroll	7,739,512	7,739,512	0	0
			Insurance Premium	2,144,844	2,144,844	0	0
			Hotel/Motel Room Tax	143,273	143,273	0	0
			Telecommunications Excise Tax	116,328	116,328	0	0
			Investment Income	49,152	49,152		109,712
			Parking Fines	1,865	1,865		0
			Gain (Loss) on disposal of fixed assets	0	0		13,449
			Other Local Revenues	166,129	166,129		210,977
			Total General Revenues	\$ 13,694,096	\$ 13,694,096	\$ 334,138	
			Capital Contributions	0	0	0	0
			Change in Net Position	1,220,769	1,220,769		1,751,708
			Net Position June 30, 2014	18,431,304	18,431,304		68,268,809
			Prior Period Correction (see Note 20)	(273,979)	(273,979)		
			Restatement for Pension Liability (see Note 12)	(13,091,717)	(13,091,717)		(3,219,524)
			Adjusted Net Position, June 30, 2014	5,065,608	5,065,608		65,049,285
			Net Position June 30, 2015	\$ 6,286,377	\$ 6,286,377	\$ 66,800,993	

See Auditor's Report and Accompanying Notes

FUND FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2015

	GENERAL FUND	CAPITAL EQUIPMENT FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and Cash Equivalents	\$ 4,551,308	\$ 2,352,701	\$ 1,363,667	\$ 8,267,676
Accounts Receivable				
Taxes (net of allowance for doubtful accounts \$88,003)	1,465,527			1,465,527
Accounts, Net of allowance for doubtful accounts (\$299,671)	194,479			194,479
Intergovernmental	182,320	93,671	22,952	298,943
Other	5,794			5,794
Due from Other Funds	12,252	17,416		29,668
Prepaid Expenses	7,080			7,080
Accrued Interest				
TOTAL ASSETS	\$ 6,418,760	\$ 2,463,788	\$ 1,386,619	\$ 10,269,167
LIABILITIES:				
Accounts Payable	\$ 76,488	\$	\$ 1,431	\$ 77,918
Due to Other Funds	6,716		22,952	29,668
Accrued TIF Incentive Payable	48,913			48,913
Accrued Payroll & Related Liabilities	674,145			674,145
TOTAL LIABILITIES	806,262		24,383	830,645
FUND BALANCES:				
Restricted Fund Balance			911,502	911,502
Committed Fund Balance		2,463,788	450,733	2,914,521
Assigned Fund Balance	751,729			751,729
Unassigned Fund Balance	4,860,769			4,860,769
TOTAL FUND BALANCES	5,612,498	2,463,788	1,362,236	9,438,521
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,418,760	\$ 2,463,788	\$ 1,386,619	\$ 10,269,167

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2015

Total Governmental Fund Balances	\$	9,438,521
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current current financial resources, but they are reported in the statement of Net Position		13,693,147
Deferred Inflows related to pensions are not reported in the fund financial statements because they will be recognized in future periods		(1,347,046)
Deferred Outflows related to pension contributions are not reported in the fund financial statements because they were made subsequent to measurement date		2,028,232
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		
Firefighter's settlement		(905,172)
Long-term debt		(1,764,211)
Incurred but Not Reported Health Claims		(162,837)
Compensated absences liability		(619,373)
Net Pension Liability		(13,348,901)
Net Pension Obligation		(725,985)
Net Position of Governmental Activities	\$	6,286,376

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	GENERAL	CAPITAL EQUIPMENT	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Taxes	\$ 11,359,215	\$ 988,901	\$ 143,273	\$ 12,491,389
Licenses & Permits	985,561	0	0	985,561
Charges for Services	1,305,283	0	0	1,305,283
Fines	1,865	0	0	1,865
Intergovernmental	1,291,803	203,279	879,695	2,374,778
Investment Income	26,102	14,757	8,293	49,152
Other	71,012	15,833	79,280	166,125
TOTAL REVENUES	15,040,841	1,222,770	1,110,542	17,374,153
EXPENDITURES:				
City Commission	426,323	0	0	426,323
City Attorney	46,472	0	0	46,472
City Manager	498,793	0	0	498,793
Finance Department	372,932	0	0	372,932
Planning Department	341,669	0	1,736	343,404
Main Street Department	68,334	0	23,677	92,011
Engineering	116,052	0	0	116,052
Conservancy	(1,839)	0	0	(1,839)
Administration	710,464	0	0	710,464
Central Communications	892,303	0	0	892,303
Police Department	3,373,850	3,600	134,059	3,511,509
Fire Department	4,167,542	2,524	4,374	4,174,440
EMS Division	2,110,024	0	0	2,110,024
Public Works	1,018,252	33	391,766	1,410,051
Intergovernmental	684,335	0	226,017	910,352
Capital	177,980	722,466	197,173	1,097,619
Debt service principal	0	281,566	0	281,566
Debt service interest	0	80,166	0	80,166
TOTAL EXPENDITURES	15,003,486	1,090,355	978,802	17,072,642
Excess (Deficit) of Revenues over Expenditures	37,355	132,416	131,740	301,511
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term borrowing	0	0	0	0
Infrastructure contributions	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	0	0	0	0
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	37,355	132,416	131,740	301,511
Fund Balance June 30, 2014	5,849,122	2,331,372	1,230,496	9,410,990
Prior period correction (see Note 20)	(273,979)			(273,979)
Fund Balance June 30, 2014, restated	5,575,143	2,331,372	1,230,496	9,137,011
Fund Balance June 30, 2015	\$ 5,612,498	\$ 2,463,788	\$ 1,362,236	\$ 9,438,521

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$	301,511
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives.		1,097,619
Depreciation expense is reported in the statement of activities to recognize the cost of capital assets used to provide programs and services.		(1,210,642)
Proceeds of lease proceeds are reported as sources of funds in the fund statements and increases in long-term debt in the governmentwide statements		
Gain/loss on sale of fixed assets is reported in the statement of activities to recognize the disposal of fixed assets		
Developer contributions of roads and infrastructure are reported in the statement of activities		712,960
Firefighter's litigation settlement was not recognized in the governmental funds in FY 2015 but has been accrued in the governmentwide statements in FY 2011, FY 2012, and FY 2015		(163,698)
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.		(19,361)
		249,412
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.		(49,176)
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.		20,573
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.		281,569
		<hr/>
Change in Net Position of Governmental Activities	\$	<u><u>1,220,768</u></u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL (BUDGETARY BASIS)
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2015

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 11,000,000	\$ 11,000,000	\$ 11,359,215	\$ 359,215
Licenses & Permits	930,000	930,000	985,561	55,561
Charges for Services	1,543,000	1,543,000	1,305,283	(237,717)
Fines	0	0	1,865	1,865
Intergovernmental	1,537,000	1,537,000	1,291,803	(245,197)
Investment Income	0	0	26,102	26,102
Other	0	0	71,012	71,012
TOTAL REVENUES	<u>15,010,000</u>	<u>15,010,000</u>	<u>15,040,841</u>	<u>30,841</u>
EXPENDITURES:				
General Government	2,823,000	3,051,000	2,757,179	293,821
Central Communications	952,000	952,000	892,303	59,697
Police Department	3,813,000	3,813,000	3,373,850	439,150
Fire Department	4,099,000	4,289,000	4,167,542	121,458
EMS Division	2,317,000	2,417,000	2,110,024	306,976
Public Works	1,103,000	1,103,000	1,018,252	84,748
Intergovernmental	686,000	690,500	684,335	6,165
Capital	0	0	0	0
Debt service principal	0	0	0	0
Debt service interest	0	0	0	0
TOTAL EXPENDITURES	<u>15,793,000</u>	<u>16,315,500</u>	<u>15,003,486</u>	<u>1,312,014</u>
Excess (Deficit) of Revenues over Expenditures	<u>(783,000)</u>	<u>(1,305,500)</u>	<u>37,355</u>	<u>1,342,855</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	0	0	0	0
Infrastructure contributions	0	0	0	0
Operating transfers in	400,000	400,000	0	400,000
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	<u>400,000</u>	<u>400,000</u>	<u>0</u>	<u>400,000</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(383,000)</u>	<u>(905,500)</u>	<u>37,355</u>	<u>1,742,855</u>
Fund Balance June 30, 2014	4,309,000	4,309,000	5,849,122	1,540,122
Prior period correction (See Note 20)			(273,979)	(273,979)
Fund Balance June 30, 2014, restated	<u>4,309,000</u>	<u>4,309,000</u>	<u>5,575,143</u>	<u>1,266,143</u>
Fund Balance June 30, 2015	<u>\$ 3,926,000</u>	<u>\$ 3,403,500</u>	<u>\$ 5,612,498</u>	<u>\$ 3,008,998</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL (BUDGETARY BASIS) GENERAL
AND MAJOR SPECIAL REVENUE FUNDS (CONTINUED)
For the Year Ended June 30, 2015

	SPECIAL REVENUE FUND (CAPITAL EQUIPMENT FUND)			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 900,000	\$ 900,000	\$ 988,901	\$ 88,901
Licenses & Permits	0	0	0	0
Charges for Services	0	0	0	0
Fines	0	0	0	0
Intergovernmental	249,000	249,000	203,279	(45,721)
Investment Income	0	0	14,757	14,757
Other	168,000	168,000	15,833	(152,167)
TOTAL REVENUES	1,317,000	1,317,000	1,222,770	(94,230)
EXPENDITURES:				
General Government	750,104	750,104	94,581	655,523
Central Communications	76,100	76,100	96,990	(20,890)
Police Department	184,900	184,900	215,586	(30,686)
Fire Department	224,170	224,170	30,023	194,147
EMS Division	204,426	204,426	181,359	23,067
Public Works	114,100	114,100	110,083	4,017
Intergovernmental	0	0	0	0
Capital	0	0	0	0
Debt service principal	281,600	281,600	281,566	34
Debt service interest	80,200	80,200	80,166	34
TOTAL EXPENDITURES	1,915,600	1,915,600	1,090,355	825,246
Excess (Deficit) of Revenues over Expenditures	(598,600)	(598,600)	132,416	731,016
OTHER FINANCING SOURCES (USES):				
Proceeds of long-term debt	0	0	0	0
Infrastructure contributions	0	0	0	0
Operating transfers in	(400,000)	(400,000)	0	400,000
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	(400,000)	(400,000)	0	400,000
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(998,600)	(998,600)	132,416	1,131,016
Fund Balance June 30, 2014	2,243,000	2,243,000	2,331,372	88,372
Fund Balance June 30, 2015	\$ 1,244,400	\$ 1,244,400	\$ 2,463,788	\$ 1,219,388

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF NET POSITION—PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2015

	ENTERPRISE FUND
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 9,658,812
Restricted Cash and Cash Equivalents	362,935
Accrued Interest, Restricted	241
Accounts Receivable, Customers, Net of Allowance of Doubtful Accounts, \$57,012	1,985,124
SDC Assessments Receivable	482,000
Other Accounts Receivable	49,075
Materials and Supplies	357,718
Prepaid Expenses	515,391
Total Current Assets	13,411,296
Restricted Assets	
Cash and Cash Equivalents	16,151,755
Total Restricted Assets	16,151,755
Property, Plant and Equipment	
Utility Systems, Net of Depreciation	106,078,397
Land	1,519,050
Construction in Progress	7,604,754
Total Property, Plant and Equipment	115,202,201
TOTAL ASSETS	\$ 144,765,252
DEFERRED OUTFLOWS OF RESOURCES-PENSONS	\$ 501,398
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 491,261
Other Accrued Liabilities	162,595
Customer Deposits	147,969
Accrued interest Payable	99,336
Current Portion of Long-Term Debt	3,499,036
Total Current Liabilities	4,400,197
NONCURRENT LIABILITIES	
Compensated Absences	484,589
Noncurrent Portion of Long-Term Debt	69,436,092
Net Pension Liability	3,728,579
Total Noncurrent Liabilities	73,649,260
TOTAL LIABILITIES	\$ 78,049,457
DEFERRED INFLOWS OF RESOURCES-PENSIONS	\$ 416,200
NET POSITION:	
Net Investment in Capital Assets	42,267,073
Restricted for Capital Projects (Expendable)	14,709,500
Restricted for Bond Debt Service (Expendable)	1,647,717
Unrestricted	8,176,703
TOTAL NET POSITION	\$ 66,800,993

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION—
PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2015

	<u>ENTERPRISE FUND</u>
OPERATING REVENUES:	
Water	\$ 5,354,127
Wastewater	8,088,236
Solid Waste	3,413,874
Transfer Station	57,776
TOTAL OPERATING REVENUES	<u>16,914,013</u>
OPERATING EXPENSES:	
Administrative	2,236,944
Solid Waste	1,856,574
Water	3,330,581
Wastewater	6,480,855
Vehicle Maintenance	161,404
TOTAL OPERATING EXPENSES	<u>14,066,358</u>
Operating Income (Loss)	2,847,655
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	109,712
Interest Expense	(1,611,815)
Other Income	210,977
Gain on Sale of Capital Assets	13,449
Amortization Expense of Bond Discount	(85,983)
Grant Income	62,758
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(1,300,902)</u>
Net Income (Loss) before Capital Grants & Contributions	1,546,753
Capital Contributions	<u>204,955</u>
Change in Net Position	<u>1,751,708</u>
Net Position, Beginning of Year	68,268,809
Cummulative Effect of change in Accounting Principle	<u>(3,219,524)</u>
Net Position, Beginning of Year, Restated	65,049,285
Net Positon, End of Year	<u>\$ 66,800,993</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CASH FLOWS—PROPRIETARY FUND (COMPONENT UNIT)
June 30, 2015

	ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 17,312,207
Payments to Suppliers	(6,232,595)
Payments to Employees	(3,066,529)
Other Receipts (Payments)	<u>98,898</u>
Net Cash Provided (Used) by Operating Activities	<u>8,111,981</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	13,449
Proceeds from Long-Term Debt	9,915,000
Principal Payments	(3,220,664)
Interest Payments	(1,601,201)
Purchase of Property, Plant and Equipment	(9,077,704)
Proceeds from Federal and State Grants - Capital Items	62,758
Contributed Capital Received	204,955
Cash from Other Income	<u>210,977</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,492,430)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	4,437,759
Cash from Interest	<u>109,712</u>
Net Cash Provided (Used) by Investing Activities	<u>4,547,471</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,167,022
Cash and Cash Equivalents, Beginning of Year	<u>17,006,480</u>
Cash and Cash Equivalents, End of Year	<u>\$ 26,173,502</u>

See Auditor's Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION—FIDUCIARY FUND
June 30, 2015

	PENSION TRUST	AGENCY FUND
ASSETS		
Cash and Cash Equivalents	\$ 94,862	\$ 23,179
Investments	1,263,308	
Pension contribution receivable		
Accrued Investment Income	6,770	
TOTAL ASSETS	\$ 1,364,940	\$ 23,179
LIABILITIES		
Accounts Payable		
Due to General Fund	\$	
Due to Member Agencies		\$ 23,179
TOTAL LIABILITIES	\$	\$ 23,179
 FIDUCIARY NET POSITION	 \$ 1,364,940	

CITY OF WINCHESTER, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUND
For the Year Ended June 30, 2015

	<u>PENSION TRUST</u>	<u>AGENCY FUND</u>
ADDITIONS:		
Contributions	\$ 15,662	\$ 30,762
Investment Income:		
Interest	28,901	
Net Appreciation (Depreciation) in Fair Value of Investments	(6,895)	
(Gain) Loss on Sale of Investments	(18,070)	
Less: Investment Expense	<u>(5,397)</u>	
Net Investment Income	<u>(1,461)</u>	
Total Additions	14,201	30,762
DEDUCTIONS:		
Benefits	113,821	
Program Expenses		30,763
HRA Benefits	5,662	
Taxes	<u>2,706</u>	
Total Deductions	122,189	30,763
Change in Net Position	(107,988)	(0)
Net Position June 30, 2014	<u>1,472,928</u>	
Net Position June 30, 2015	<u>\$ 1,364,940</u>	<u>\$ (0)</u>

See Auditor's Report and Accompanying Notes

NOTES TO THE FINANCIAL STATEMENTS

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

THE FINANCIAL REPORTING ENTITY

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

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

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Component Unit – WMU

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

BASIS OF PRESENTATION

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund Accounting

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

A. Governmental Fund Types

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

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

B. Proprietary Funds (Enterprise Fund)

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

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Measurement Focus and Basis of Accounting

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

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

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

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

BASIS OF ACCOUNTING

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

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

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

BUDGETARY PROCESS

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

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

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

CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

ACCOUNTS RECEIVABLE—COMPONENT UNIT (WMU)

Accounts receivable - Customers, are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense. An adjustment to an allowance for doubtful accounts is based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2015 and 2014, \$63,780 and \$72,914 were written off as uncollectible, respectively.

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

INVENTORIES AND PREPAIDS

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

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

RESTRICTED ASSETS—COMPONENT UNIT (WMU)

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

CAPITAL ASSETS

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; however, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

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

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

CAPITAL ASSETS—COMPONENT UNIT (WMU)

Property, plant, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Donated capital assets are recorded at estimated fair market value at the date of donation. WMU's capitalization policy is \$500.

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

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

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

ESTIMATES

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

COMPENSATED ABSENCES

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (continued)

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

BOND AMORTIZATION COSTS—COMPONENT UNIT (WMU)

Bond premiums and discounts, are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense for bond discount as of June 30, 2015 and 2014 was \$13,488 and \$10,176, respectively.

INTEREST-COMPONENT UNIT (WMU)

Interest is charged to expense as incurred except, WMU follows the policy of capitalizing interest as a component of construction in progress. For the years ended June 30, 2015 and 2014, total interest incurred and expensed was \$1,611,815 and \$1,492,300, respectively.

LONG-TERM DEBT

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

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

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

PENSIONS

Beginning in fiscal year 2015, the City has implemented GASB Statement No. 68, which requires recognition of the employer's (the City) obligation for the long-term liabilities associated with both the cost-sharing and single-employer plans offered to City employees. Statement No. 68 also prescribes the accounting and reporting requirements for measuring and reporting these liabilities. This implementation also added deferred outflows of resources and deferred inflows of resources to the City's statement of net position. In fiscal year 2015, there is also a restatement of the City's beginning net position to reflect the beginning balance for the net pension liability as of June 30, 2014. The City reports its proportionate share of the collective balances for the cost-sharing plan administered by the Commonwealth of Kentucky. More information about these plans and the related balances is provided in Note 12—Pension Plans.

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSIONS—WMU

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

INTERFUND TRANSFERS

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

EQUITY CLASSIFICATIONS

Government-wide Statements - Equity is classified as net position and displayed in three components:

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

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

Net Position—Component Unit (WMU)

Net position represents the difference between assets and liabilities. Invested in capital assets, net of related debt; consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

REVENUE RECOGNITION – PROPERTY TAXES

Property taxes for 2014 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 7, 2014 and were due December 5, 2014. Taxes unpaid after December 5, 2014 were delinquent and were subject to a 10% penalty, and interest of ½ of 1% per month.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Based on collection histories, the City has provided at June 30, 2015, an allowance for uncollectible property taxes of 100% of delinquent accounts.

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

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

NONMONETARY TRANSACTION—COMPONENT UNIT (WMU)

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

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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURE — COMPONENT UNIT (WMU)

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

Clark County Geographic Information System Consortium (CCGIS), is a governmental agency created by an inter-local agreement between the Clark County PVA, City of Winchester and WMU. CCGIS was created to provide a geographic system to serve the needs of Winchester and Clark County. The operations are funded by the City, WMU and the Clark County Fiscal Court. WMU provides management services for CCGIS. WMU contributed \$94,138 and \$80,249 for the years ended 2015 and 2014, respectively. CCGIS had accounts payables to WMU of \$ 0 and \$80,599 for the years ended 2015 and 2014, for reimbursements of payroll and other expenses. CCGIS had no accounts receivable from WMU for the years ended 2015 and 2014, for excess reimbursements of payroll and other expenses. Complete financial statements for CCGIS can be obtained from WMU’s Director of Finance.

IMPLEMENTATION OF GASB STANDARDS

The City of Winchester and WMU implemented new guidance from the Governmental Accounting Standards Board (GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*) during the year ended June 30, 2015 for both the Police and Firefighters defined benefit pension plan and the cost-sharing County Employees Retirement System administered by the Kentucky Retirement Systems.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This implementation required recognition of the employer’s proportionate share of the collective CERS net pension liabilities, deferred outflows of resources and deferred inflows of resources. In addition, beginning balances were restated to reflect the beginning balance of the net pension liability. These changes are summarized in the following table. (See Note 12 for more details).

Describe	CERS	P&F	Total	WMU
Deferred Outflows	\$ 1,933,943	\$ 94,289	\$ 2,028,232	\$501,398
Deferred Inflows	1,347,046		1,347,046	416,200
Net Pension Liability	13,348,901	725,985	14,074,886	3,728,580
Prior Period Adjustment	13,011,417	80,300	13,091,717	847,712
Pension expense	1,715,488	29,361	1,744,849	3,219,524

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, 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 require investments to be reported at fair value.

<u>Investments</u>	<u>Fair Value</u>	<u>Cost</u>
Money Market Mutual Fund	\$ 94,862	\$ 94,862
U.S. Government Securities	<u>1,263,308</u>	<u>1,210,569</u>
Total Investments	<u>\$1,358,170</u>	<u>\$1,305,431</u>

Custodial Credit Risk

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

Credit Risk

State law limits investments in accordance with KRS 95.600 "Pension Fund Investments". The City has no investment policy that would further limit its investment choices. As of June 30, 2015, the City's investments in money market mutual funds were unrated.

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

WMU's investment policy conforms to state statutes. 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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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:

06/30/15 Type	Fair Value	Maturities (in Years)			
		< Than 1	1 - 5	6 - 10	> 10
Cash & Cash Equivalents	\$ 21,173,502	\$ 21,173,502	\$ 0	\$ 0	\$ 0
U.S. Treasury Obligations	0	0	0	0	0
Total	\$ 21,173,502	\$ 21,173,502	\$ 0	\$ 0	\$ 0

Credit Risk

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

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

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

06/30/15 Type	Fair Value	Ratings			
		AAA	AA	A	Unrated
Cash and Cash Equivalents	\$ 21,173,502	\$ 0	\$ 0	\$ 0	\$ 21,173,502
U.S. Treasury Obligations	0	0	0	0	0
Total	\$ 21,173,502	\$ 0	\$ 0	\$ 0	\$ 21,173,502

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, 2015 and 2014 all deposits and investments were either fully collateralized by federal depository insurance or by the pledging institution in WMU's name or were held in a bank's trust department in the City of Winchester's name, the primary government of the component unit, WMU.

NOTE 3 – WMU RESTRICTED ASSETS

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

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 – WMU RESTRICTED ASSETS (CONTINUED)

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

The restricted assets in the accompanying financial statements are restricted as to use by ordinance or by external parties. A schedule of restricted assets at June 30, 2015, follows:

06/30/15	Cash	Investments	Accrued Interest	Total
Restricted by Ordinance:				
Bond Redemption Account	\$ 362,935	\$ 0	\$ 0	\$ 362,935
Reserve Accounts	1,077,385	0	0	1,077,385
Depreciation Account	1,936,553	0	0	1,936,553
Subtotal	3,376,873	0	0	3,376,873
Other Restricted Accounts:				
SDC Water Fund	2,703,365	0	0	2,703,365
SDC Wastewater Fund	127,524	0	0	127,524
Customer Deposits	157,473	0	0	157,473
KIA Reserve	207,396	0	0	207,396
Water Improvements	1,775,711	0	0	1,775,711
2014 Bond Funds	7,528,285	0	0	7,528,285
Capital Accum-Water	415,752	0	0	415,752
Capital Accum-Wastewater	222,311	0	0	222,311
Total	\$ 16,514,690	\$ 0	\$ 0	\$ 16,514,690

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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	\$ 434,519	\$ 235,248	\$ 0	\$ 669,767
Land	1,994,503	158,180	0	2,152,683
Total Non-depreciable capital assets	<u>2,429,022</u>	<u>393,428</u>	<u>0</u>	<u>2,822,450</u>
Depreciable capital assets:				
Buildings	5,474,313	1,338	0	5,475,651
Vehicles	5,582,724	397,836	(125,138)	5,855,422
Computers	404,132	0	(996)	403,136
Equipment	4,057,881	305,019	(101,614)	4,261,286
Infrastructure	22,188,048	712,960	0	22,901,008
Total depreciable capital assets	<u>37,707,098</u>	<u>1,417,153</u>	<u>(227,748)</u>	<u>38,896,503</u>
Less accumulated depreciation				
Buildings	(2,421,169)	(213,469)	0	(2,634,638)
Vehicles	(4,407,021)	(361,388)	125,138	(4,643,271)
Computers	(330,123)	(23,706)	996	(352,833)
Equipment	(3,227,955)	(281,709)	101,614	(3,408,050)
Infrastructure	(16,656,643)	(330,370)	0	(16,987,013)
Total accumulated depreciation	<u>(27,042,911)</u>	<u>(1,210,642)</u>	<u>227,748</u>	<u>(28,025,805)</u>
Total depreciable capital assets, net	10,664,187	206,511	0	10,870,698
Governmental activities capital assets, net	<u>\$ 13,093,209</u>	<u>\$ 599,939</u>	<u>\$ 0</u>	<u>\$ 13,693,148</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	\$ 621,336
Public Protection	
Police	127,283
Fire Protection	204,194
EMS	167,183
Public Works	90,646
	<u>\$ 1,210,642</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

WMU's systems consist of the following:

<u>06/30/15</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	1,808,523	5,796,231	0	7,604,754
Total Non-depreciable Assets	<u>\$ 3,327,573</u>	<u>\$ 5,796,231</u>	<u>\$ 0</u>	<u>\$ 9,123,804</u>
Depreciable Assets:				
Administrative	\$ 3,350,710	\$ 133,777	\$ (111,800)	\$ 3,344,838
Water System	44,257,340	4,965,853	(3,824,491)	45,398,702
Wastewater System	109,432,345	42,196,414	(40,900,015)	110,728,744
Solid Waste	6,718,911	1,231,581	(826,337)	7,124,154
Vehicle Maintenance	460,592	19,849	(17,325)	460,592
Equipment Capital Lease	81,279	0	0	81,279
Subtotal	<u>164,301,180</u>	<u>48,547,475</u>	<u>(45,679,969)</u>	<u>168,659,885</u>
Accumulated Depreciation:				
Administrative	(1,677,013)	(184,783)	49,106	(1,812,688)
Water System	(12,320,924)	(1,076,520)	21,982	(13,375,462)
Wastewater System	(21,281,586)	(3,144,870)	0	(24,426,456)
Solid Waste	(1,630,818)	(149,566)	395,798	(1,877,050)
Vehicle Maintenance	(331,796)	(8,231)	0	(340,027)
Prior Years Accumulated	<u>(19,230,756)</u>	<u>0</u>	<u>0</u>	<u>(19,230,756)</u>
Subtotal	<u>(56,472,893)</u>	<u>(4,810,202)</u>	<u>220,654</u>	<u>(61,062,438)</u>
Total Net Property, Plant and Equipment	<u>\$ 107,828,287</u>	<u>\$ 43,737,273</u>	<u>\$ (45,459,315)</u>	<u>\$ 106,078,397</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>2015</u>
Administrative	\$ 184,783
Water System	1,076,520
Wastewater System	3,144,870
Solid Waste	395,798
Vehicle Maintenance	8,231
Total Depreciation Expense	<u>\$ 4,810,202</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 — INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables during the year ending June 30, 2015 were as follows.

Fund	Receivable	Payable
General Fund	\$ 12,252	\$ 6,716
Capital Equipment Fund	17,416	
Special Revenue Funds		
Local Grant Funds		
State Grant Funds		
Federal Grant Funds		22,952
Total	\$ 29,668	\$ 29,668

NOTE 6 — OPERATING LEASES

The City had operating leases for the following equipment at June 30, 2015. Terms of the operating leases are as follows:

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

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

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 — CONSTRUCTION IN PROGRESS

Construction in progress at June 30, 2015 consists of the following:

	Construction in Progress			
	Beginning	Additions	Completed	Ending
7th Street	\$ 197,830			\$ 197,830
Fulton Rd	162,725			162,725
CDBG Disaster Recovery	43,239	138,707		181,946
Maple/Boone Sanitary Sewer	30,635	13,330		43,965
Community Splash Pad	-	19,800		19,800
Downtown Mast Arms	-	10,583		10,583
Washington-Jackson Storm	-	4,350		4,350
Washington-Franklin Storm	-	10,910		10,910
Blanton Alley	-	37,569		37,569
	<u>\$ 434,429</u>	<u>\$ 235,248</u>	<u>-</u>	<u>\$ 669,767</u>

NOTE 8 - LONG-TERM DEBT

CHANGES IN LONG-TERM DEBT

Governmental long-term liability activity was as follows:

Describe	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Capital Leases	\$ 2,045,780		\$ 281,569	\$ 1,764,211	\$ 270,751
Sick Leave	639,946		20,573	619,373	
Total Governmental	<u>\$ 2,685,726</u>		<u>\$ 302,142</u>	<u>\$ 2,383,584</u>	<u>\$ 270,751</u>

CAPITAL LEASES

The City has four capital leases at of June 30, 2015. The liability for the lease obligations have been recorded in the government-wide financial statements. Details of the leases are presented below.

Purpose	Date	Interest Rate	Term	Annual Payment	Outstanding Balance
Cardiac Monitors	6/13/2014	1.44%	4 years	\$ 68,201	\$ 183,563
Horton Ambulance (EMS)	2/26/2013	1.77%	4 years	\$ 42,697	\$ 104,191
Pierce Pumper Fire Truck	11/19/09	3.94%	7 years	\$ 74,030	\$ 89,864
Winchester Community Center	05/21/10	3.48%	20 years	\$ 152,277	\$ 1,386,592

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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

CAPITAL LEASES (CONTINUED)

Capital leasing commitments to maturity for the year ending June 30, 2015:

	2016	\$ 330,315
	2017	272,958
	2018	214,314
	2019	139,982
	2020	138,140.39
	Thereafter	<u>1,198,249</u>
Total Minimum Lease Payments		2,293,959
Less interest payments		529,749
		<u>\$ 1,764,211</u>

LONG-TERM DEBT—WMU

WMU issues revenue bonds to finance improvements and extensions to the water and sewer systems. The Winchester Municipal Utilities bonded indebtedness and other long-term notes at June 30, 2015 and 2014, are summarized as follows:

Description	Rate	Maturity	Original Issue	2015 Total	2014 Total
2011 Issue	5.27%	01/01/31	\$ 9,010,000	\$ 7,672,083	\$ 8,018,333
2012 Issue	2.00-3.75%	07/01/32	7,495,000	6,530,000	6,825,000
2014 Issue			9,915,000	9,915,000	0
Less: Unamortized Discount				<u>(367,804)</u>	<u>(175,901)</u>
Total Bonds				<u>23,749,279</u>	<u>14,667,432</u>
KIA Loan	1.00%	12/01/28 Estimate	21,000,000	14,632,071	15,639,554
KIA-Lower Howards Creek	2.00%	01/01/31 Estimate	36,600,000	33,560,075	35,095,163
KIA-Bel-Air	2.00%	01/01/31	1,000,000	492,612	515,146
KIA-Industrial Storage Tanks	2.00%	12/01/30	340,326	275,106	290,108
KIA-Vaught Court	2.00%	06/01/31	\$ 287,400	225,893	238,689
Total KIA Loans				<u>49,185,758</u>	<u>51,778,660</u>
Less: Current Maturities				<u>(3,499,036)</u>	<u>(3,234,152)</u>
Total Long Term				<u>\$ 69,436,092</u>	<u>\$ 63,212,031</u>

The annual bond and long-term debt service requirements, as of June 30, 2015, are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 3,499,036	\$ 1,719,059	\$ 5,217,893
2017	3,561,540	1,655,478	5,217,019
2018	3,637,083	1,588,593	5,225,676
2019	3,706,313	1,518,451	5,224,764
2020	3,776,544	1,441,237	5,217,781
2021-2025	20,181,078	5,967,588	26,148,666
2026-2030	20,848,032	3,593,983	24,442,015
2031-2035	9,623,513	1,332,984	10,956,497
2036-2040	2,025,000	705,406	2,730,406
2041-2045	2,445,000	297,225	2,742,225
	<u>\$ 73,302,109</u>	<u>\$ 19,820,006</u>	<u>\$ 93,122,944</u>

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

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

Series 2011 Bonds

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

Refunding, Series 2012 Bonds

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

Series 2014 Bonds

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

KIA Loan

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT (CONTINUED)

KIA – Vaught Court Loan

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

KIA – Lower Howards Creek

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

KIA – Industrial Elevated Storage Tank

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

KIA – Bel Air Sanitary

On October 1, 2012, Winchester Municipal Utilities entered into an “Assistance Agreement” with the Kentucky Infrastructure Authority (KIA), to provide funds for the Bel-Air and Westside pump station projects, \$1,000,000. This agreement calls for interest payments to commence within six months from the first draw of funds with full principal and interest payments to commence within one year of initiation of operation estimated to be December 1, 2014. 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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 – LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT – WMU (CONTINUED)

account each December 1 until the balance reaches \$25,000 and is to be maintained for the life of the loan.

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

Changes in Long-Term Debt - WMU

Long-Term Debt consists of bonds and other indebtedness for which the changes in the years ended June 30, 2015 are as follows:

<u>Description</u>	<u>Beginning</u>	<u>Borrowings Additions</u>	<u>Repayments Reductions</u>	<u>2015 Ending</u>	<u>Current</u>
Compensated Absences	\$ 463,821	\$ 0	\$ 0	\$ 484,589	\$ 0
Bonds	14,667,432	9,716,584	641,250	23,749,279	864,167
KIA Loan	15,639,554	0	1,007,483	14,632,071	1,017,583
Capital Lease	0.00	0	0	0	0
KIA-Lower Howards	35,095,163	0	1,535,088	33,560,076	1,565,943
KIA-Bel-Air	515,146	0	22,532	492,613	22,986
KIA-Storage Tank	290,108	0	15,002	275,106	15,304
KIA-Vaught Court	238,689	0	12,544	225,893	13,053
Total Long-Term Debt	<u>\$ 66,909,913</u>	<u>\$ 9,915,000</u>	<u>\$ 3,177,801</u>	<u>\$ 73,419,627</u>	<u>\$ 3,499,036</u>

NOTE 9 – COMPLIANCE WITH BOND ORDINANCES - WMU

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

Bond Debt Service - Bonds

Monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next principal payment shall be set aside monthly so as to accumulate in the Bond Fund in order to pay interest and principal on the bonds. In addition, the Bond Ordinance requires that a specific amount be maintained in the Debt Service Reserve Account defined as the “Reserve Amount.” The account is to be reviewed each year and funded based on the least of three factors: 1) maximum annual principal and interest requirement, 2) 125% of the average annual principal and interest requirement or 3) 10% of the outstanding loan proceeds. The first factor was applicable for June 30, 2015 and 2014, and required a balance of \$1,048,375.

Depreciation Reserve – Bonds and KIA Loan

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Interest Coverage Ratio – Bonds and KIA Loan

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

Bonds:	<u>2015</u>	<u>2014</u>
Income Available for Debt Service	\$ 3,181,791	\$ 4,146,967
Add: Depreciation	4,810,202	3,809,825
Cash Available for Bond Debt Service	<u>\$ 7,991,993</u>	<u>\$ 7,956,792</u>
Annual Debt Service on Bonds	<u>1,196,844</u>	<u>1,205,004</u>
Coverage Ratio	<u>6.68</u>	<u>6.60</u>
KIA:	<u>2015</u>	<u>2014</u>
Income Available for Debt Service	\$ 3,181,791	\$ 4,146,967
Add: Depreciation	4,810,202	3,809,825
Cash Available for Debt Service	<u>\$ 7,991,993</u>	<u>\$ 7,956,792</u>
Annual Debt Service on all Debt	<u>4,658,525</u>	<u>4,633,676</u>
Coverage Ratio	<u>1.72</u>	<u>1.72</u>

Winchester Municipal Utilities is in compliance with all of the covenants of the bond ordinance and KIA loan agreement as of June 30, 2015 and 2014.

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

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

Water Utility Improvements	\$ 39,457,776
Wastewater Utility Improvements	<u>21,916,000</u>
Total projected financing requirement	<u>\$ 61,373,776</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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

Finance and Administration:	
Copiers	\$ 6,000
Upgrade/Renew Network Virus Protection	0
Upgrade Local Area Network	7,000
Replace Microcomputers	6,000
Engineering Software Upgrades	0
Field Operation Vehicles	465,000
Solid Waste Collection:	
Cubit Replacement	25,000
Container Replacement	50,000
Replace Compactor Ejector Box	10,000
Solid Waste Recycling	1,000
Water Treatment Plant Equipment Improvements	60,000
Water System Improvements	570,000
Water Distribution:	
Main Replacement	100,000
Fire Hydrant Replacement	12,000
Gate Value Box Adjustment – New Paving	0
Gate Value Replacement	10,000
Elevated Storage Tank Rehabilitation	100,000
Meter Change-Out/AMR Equipment	125,000
New Meter Services	30,000
Wastewater Collection:	
Main Replacement Program	100,000
Manhole Grade Adjustment – New Paving	0
I&I Rehabilitation	20,000
Rehabilitation of Private Sewers	20,000
Flow Meters	10,000
Infrastructure Rehabilitation Program	0
System Capacity Assurance Program	18,000
Routine Hydraulic Cleaning	60,000
Wastewater Treatment Plant:	
Replacement of Laboratory Equipment	2,000
WWTP Equipment Improvements	40,000
Solids Processing Improvements	70,000
Total Annual Allocations for Infrastructure Investment	\$ 1,917,000

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

WMU has pledged future revenues from water, wastewater and solid waste to repay the 2011, 2012 and 2014 bonds and KIA outstanding debt referenced in Note 5. Proceeds from these debt obligations provided financing of the water and wastewater infrastructure, including a new wastewater treatment plant. The debt obligations will be repaid from the previously mentioned utility revenues through the year 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).

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

Describe	CERS	P&F	Total
Deferred Outflows	\$1,933,943	\$ 94,289	\$2,028,232
Deferred Inflows	1,347,046		1,347,046
Net Pension Liability	13,348,901	725,985	14,074,886
Prior Period Adjustment	13,011,417	80,300	13,091,717
Pension expense	1,715,488	29,361	1,744,849

A – POLICEMEN’S AND FIREMEN’S PENSION FUND

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

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

Membership Data for the Closed Plan:

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

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

CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, and the report issued by the firm of Bryan, Pendleton, Swats & McAllister, LLC. A copy of the report may be obtained from the City of Winchester Policemen’s and Firemen’s Pension Board.

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

The governing board has the authority to grant an annual cost-of-living adjustment for retiree benefit payments and has historically used the CPI as a benchmark for determining an annual COLA. The actuarial report as of July 1, 2015 included projections based on both zero COLAs and a 3% COLA. The COLAs granted for the last five years are listed below:

Date	COLA
July 1, 2015	.80%
July 1, 2014	1.50%
July 1, 2013	1.77%
July 1, 2012	2.96%
July 1, 2011	1.50%

The Health Reimbursement Account added in 2004 is paid directly by the City based on actual costs incurred by the retirees. Therefore, any liability associated with that benefit has not been recognized in the actuarial analysis and is funded on a pay-as-you-go approach.

The City’s previous contribution policy was to amortize unfunded actuarial accrued liabilities over thirty years (open basis). Starting with the year ended June 30, 2001, the unfunded actuarial liabilities are assumed to be amortized by year 2012 (closed basis), but with any unfunded actuarial accrued liability after 2007 being amortized over five years (open basis). However, the City is only contributing a fixed amount of \$10,000 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, 2015, PNC has invested 2.04% of the trust in a mutual fund (for cash flow purposes) and 97.96% in US Treasury securities. As of June 30, 2015, the annual money-weighted rate of return, net of investment expense is a negative .1%.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

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

As of June 30, 2015, the US Treasury securities included the following:

Type	Rate	Maturity	Rating	Market Value	Cost
Treasury Notes	.5%	02/15/17	AAA	\$ 75,099	\$ 74,936
Treasury Bond	2%	01/15/16	Unrated	120,935	108,838
Treasury Notes	4.625%	11/15/16	AAA	105,711	119,055
Treasury Notes	4.5%	5/15/17	AAA	107,234	102,316
TIP Notes	1.625%	1/15/18	AAA	119,281	105,186
Treasury Notes	3.5%	2/15/18	AAA	106,766	100,446
TIP Notes	1.875%	7/15/19	Unrated	120,809	105,770
Treasury Notes	3.375%	11/15/19	AAA	107,961	96,926
Treasury Notes	1.5%	8/31/18	AAA	50,652	50,283
Treasury Notes	.875%	7/31/19	AAA	73,448	73,931
Treasury Notes	.625%	8/31/17	AAA	49,914	49,309
Treasury Notes	.875%	1/31/18	AAA	100,016	99,258
Treasury Strips	-0-%	5/15/16	N/A	99,742	98,577

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, 2015:

Describe	Amounts
Total Pension Liability	\$2,090,925
Pension Plan’s Fiduciary Net Position	1,364,940
Net Pension Liability	<u>\$ 725,985</u>
Fiduciary Net Position as Percentage of Total Pension Liability	65.3%

Significant Assumptions Used in Actuarial Study. The actuarial analysis, completed as of June 30, 2015, has been based on the demographic estimates for the remaining eight retirees using the entry age normal funding method as required by GASB Statement Nos. 67 and 68.

- Normal retirement period applied to employees who had completed 20 years of service and obtained the age of 55. The benefit was 50% of monthly salary at time of retirement.
- Mortality rates are based on the RP-2015 Generational Mortality Tables Adjusted to 2006 with project mortality improvements after 2006 under Scale MP-2015. In previous actuarial studies, the actuary used the RP-2000 Mortality Table (Static).
- The actuarial assumptions included an assumption for future COLAs compounded at a rate equal to the average adjustment made during the most recent five years (currently 1.71%, compared to 2.09% 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, 2015

NOTE 12 – PENSION PLANS (CONTINUED)

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

- The projection of cash flows used to determine the **discount rate** assumed that employer contributions will be made on the basis of the current funding policy (\$15,000 per year). Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2035. The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments through this date, and a 20-year municipal bond rate was used for the period thereafter to determine the total pension liability. The discount rate used to measure the total pension liability was 5% for 20 years and 3.8% thereafter. This is equivalent to using a uniform discount rate of approximately 4.39% per annum. The source for the municipal bond rate at the valuation date is data from Bonds Online Group, Inc. with market data provided by Reuters, Interactive Data and Market Axess.
- The actuaries also provide a sensitivity analysis to outline 1% increase/decrease to the current discount rate. These changes in the discount rate would provide the following net pension liabilities:

	1% Decrease (3.39%)	Current Rate (4.39%)	1% Increase (5.39%)
Net Pension Liability	\$ 1,046,883	\$ 725,985	\$ 481,358

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, 2015.

	Increase/(Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	
Balances, June 30, 2014	\$2,128,956	\$ 1,472,928	\$ 656,028	
Changes for the Year:				
Interest expense	90,061		90,061	\$ 90,061
Experience loss (gains)	(117,035)		(117,035)	(117,035)
Changes of assumptions	105,860		105,860	105,860
Employer contributions		10,000	(10,000)	
Net investment income		(1,461)	1,461	
Expected return on plan investments				(70,542)
Current expense of asset gain/loss				21,017
Benefits paid	(116,917)	(116,527)	(390)	
Plan administrative expenses			0	
Other changes			0	
Net changes	(38,031)	(107,988)	69,957	\$ 29,361
Balances, June 30, 2015	\$2,090,925	\$ 1,364,940	\$ 725,985	

Pension Expense Deferred Outflows/Inflows. For the year ended June 30, 2015, the recognized pension expense will be \$29,361.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

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

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to the Winchester Policemen’s and Firemen’s Pension Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Remaining Amortization Period
Net difference between projected and actual earnings on investments	\$ 36,682	-0-	3 years
Net difference between projected and actual earnings on investments	<u>57,607</u>	-0-	4 years
Total	<u>\$ 94,289</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:	
2016	\$ 26,630
2017	26,630
2018	26,628
2019	14,401
2020	-0-
Thereafter	-0-

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, 2015**

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 2014, 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 2.2% prior to 8/1/2004 or 2% after 8/1/2004	Final compensation	Average of highest 3 fiscal years
	Benefit factor		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, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

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

Members become eligible to receive the health insurance benefit depending on the hire date, Tier in which they participate, and type of service. Health insurance benefits are not included in the inviolable contract which protects service benefits.

	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	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 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 1/1/2014	Requires 15 years of service for eligibility	Participation after 1/1/2014	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	

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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

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

- 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

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

At June 30, 2015, 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 (.079420%)	\$ 2,576,678
Hazardous plan (.896322%)	<u>10,772,225</u>
Total proportionate share	<u>\$13,348,903</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the City’s proportion was 0.07942% of the nonhazardous plan and .896322% of the hazardous plan.

For the year ended June 30, 2015, the City recognized pension expense of \$292,910 for nonhazardous members and \$1,422,578 for hazardous members in CERS.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

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

At June 30, 2014, City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	NonHazardous Plan		Hazardous Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	-	\$ 287,620	-	\$ 1,059,426	-	\$1,347,046
Contributions subsequent to the measurement date	\$ 338,757	-	\$ 1,595,186	-	\$1,933,943	-
Total	\$ 338,757	\$ 287,620	\$ 1,595,186	\$ 1,059,426	\$1,933,943	\$1,347,046

\$1,933,943 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date for the 2015 plan year will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Nonhazardous	Hazardous	Total-City
2016	\$ 57,524	\$ 211,885	\$ 269,409
2017	57,524	211,885	269,409
2018	57,524	211,885	269,409
2019	57,524	211,885	269,409
2020	57,524	211,886	269,410
Totals	\$ 287,620	\$ 1,059,426	\$ 1,347,046

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

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 2005 through 2008, is outlined in a report dated August 25, 2009.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
City’s proportionate share:			
Nonhazardous	\$3,390,736	\$2,576,678	\$1,857,439
Hazardous	\$14,091,793	\$10,772,225	\$7,953,657

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 - PENSION PLAN - WMU

WMU employees whose positions do not require a degree beyond a high school diploma 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, the same cost-sharing retirement system as the City. However, the WMU employees who participate in CERS are all members of the nonhazardous component of CERS.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

C – PENSION PLAN – WMU (CONTINUED)

Plan administration, benefits, contributions, and actuarial assumptions (including the discount rate) are the same as described earlier for the City’s cost-sharing plan. (See Section B—County Employees Retirement System, General Information and Actuarial Assumptions for the plan and actuarial descriptions.)

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

At June 30, 2015, WMU reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by WMU 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 WMU were as follows:

WMU 's proportionate share of the net pension liability \$ 3,728,580

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The WMU’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, 2014, the WMU’s proportion was 0.114924% percent.

For the year ended June 30, 2015, the WMU recognized pension expense of \$523,886 related to CERS. At June 30, 2014, WMU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	416,200
Changes in proportion and differences between WMU’s contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	501,398	-
Total	\$ 501,398	\$ 416,200

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

C – PENSION PLAN – WMU (CONTINUED)

\$501,398 reported as deferred outflows of resources related to pensions resulting from WMU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	83,240
2017	83,240
2018	83,240
2019	83,240
2020	83,240

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—
The following table presents the net pension liability of WMU, calculated using the discount rates selected by each pension system, as well as what WMU 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 :

	1% Decrease	Current Rate	Discount	1% Increase
CERS	6.75%		7.75%	8.75%
WMU's proportionate share of net pension liability:				
Non-Hazardous	\$ 4,906,546	\$	3,728,580	\$ 2,687,797

Pension plan fiduciary net position

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

Other 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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 12 – PENSION PLANS (CONTINUED)

C – PENSION PLAN – WMU (CONTINUED)

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, 2015 and 2014 were \$62,811 and \$26,668, respectively. WMU does not contribute to these plans.

NOTE 13 – CONTINGENCIES

A – INDUSTRIAL DEVELOPMENT BONDS

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

	Origination Date	Maturity Date	Outstanding Balance
Industrial Facility-Leggett & Platt	October 20, 1988	October 1, 2018	\$ 2,400,000

B - LITIGATION

In October 2015, the City settled litigation on a suit to determine the City’s responsibility for payment of firefighter’s back pay. In this suit, City of Winchester, KY v. Kentucky Labor Cabinet, the City asked the Franklin Circuit Court for a declaration of rights that the City is not responsible for these payments and the Franklin Circuit Court ruled against the City. The Supreme Court of Kentucky has also ruled against all of the City plaintiffs who originally brought the suit.

In regards to the settlement of this suit, the City has accrued a payroll liability for the firefighter’s overtime on state-provided incentive pay in the amount of \$905,172, including pension contributions, as of June 30, 2015, in the government-wide financial statements as part of accrued payroll and related liabilities. The city is still negotiating with the Kentucky Retirement Systems on the final amount of CERS contributions, penalty, and interest related to the firefighters’ back pay.

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.

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

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

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

NOTE 15 – WMU – ECONOMIC DEPENDENCY

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

<u>Name</u>	<u>2015</u>	<u>2014</u>
Sekisui	\$ 846,392	\$ 861,431
Alltech	834,194	551,612
The Kroger Company	734,030	679,920
East Clark County WD	285,793	296,810
	<u>\$ 2,700,409</u>	<u>\$ 2,389,773</u>

NOTE 16 – RISK MANAGEMENT

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

CITY – SELF-INSURANCE

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

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

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 – RISK MANAGEMENT (continued)

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

Fiscal Year Ended June 30	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2013	98,000	983,375	971,764	109,611
2014	109,611	1,112,190	1,108,140	113,661
2015	113,661	1,302,942	1,253,766	162,837

NOTE 17 – FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

In accordance with the guidance in GASB Statement 54, the City has classified ending fund balance based on the availability of funds for expenditure on programs and services. Restricted fund balance reflects funds that are limited to projects funded by federal, state, or local grants (\$12,924) and shared revenues (\$898,578) from the Commonwealth of Kentucky. Committed fund balance includes amounts set aside by the City Commission for special projects (\$450,733) and capital acquisitions (\$2,463,788). Assigned fund balance includes balances (\$751,729) held by a third-party administrator to pay future employee health care claims.

NOTE 18 – LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUNDS

The City received \$12,126 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 2015, the City spent \$28,500.

NOTE 19 – RELATED ORGANIZATIONS

The City participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. In most cases, the city and county contribute equal funding for operations. The following table outlines these organizations and the City's contribution during fiscal year 2015.

Winchester/Clark County Planning & Zoning	\$ 7,000
Winchester/Clark County Parks & Recreation	267,000
Clark County/Winchester Heritage Commission	12,000
Winchester/Clark County Recreation	57,000
Winchester/Clark County Industrial Development Authority	110,500
Winchester/Clark County Board of Adjustment	1,500
Clark County GIS	87,772
Total Contributions	<u>\$ 542,772</u>

**CITY OF WINCHESTER, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 20 – PRIOR PERIOD ADJUSTMENTS

The city has restated prior fund balances and unrestricted net position to include a) a correction of prior period accruals, and b) implement GASB Statement No. 68 for the single-employer and cost-sharing defined benefit pension plans. The correction of prior period accruals recognizes a June 2014 payroll that was omitted in the year-end accruals for fiscal year 2014. This adjustment has been recognized in both the governmental general unassigned fund balance and unrestricted net position in the government wide statements. The requirements for GASB Statement No. 68 implementation have been discussed in Note 1 and Note 12. Specific amounts included in the restatements are outlined in the following table:

	General Fund Balance	Governmental Activities Net Position
Beginning balance, July 1, 2014	\$ 5,849,122	\$ 18,431,304
Less FY 14 payroll accruals	(273,979)	(273,979)
Less Police & Fire net pension liability		(80,300)
Less CERS net pension liability		(13,011,417)
Beginning balance, July 1, 2014, restated	\$ 5,575,143	\$ 5,065,608

NOTE 21 – SUBSEQUENT EVENTS

The City declared a state of emergency for the ice storm that occurred in February 2015. In November 2015, the City received \$20,031 from the Federal Emergency Management Agency and \$3,205 from the State Emergency Management Agency. These amounts will be recognized as revenues in fiscal year 2016.

In December 2015, the City approved additional Industrial Revenue Bonds of \$140,000,000 for Catalent Pharma Solutions, LLC (lessee). The City Commissioners approved an ordinance which will provide for a trust indentures between the issuer (the City) and U.S. Bank National Association (trustee), a lease agreement between the issuer and lessee, a bond purchase agreement among the issuer, the lessee and a purchaser, an in-lieu of tax payments agreement between the issuer and the lessee, and a home office payments agreement among the issuer, the trustee, the lessee and the bond purchaser.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WINCHESTER, KENTUCKY
SINGLE EMPLOYER DEFINED PENSION TRUST SCHEDULES & NOTES
For the Year Ended June 30, 2015

	2015	2014
SCHEDULE OF CHANGES IN NET PENSION LIABILITY:		
Total Pension Liability:		
Total Pension Liability - beginning period	\$ 2,128,956	\$ 2,229,075
Interest cost	90,061	108,334
Differences between expected and actual experience	(117,035)	(18,476)
Changes of assumptions	105,860	(74,789)
Benefit payments	(116,917)	(115,188)
Total Pension Liability - end of period	2,090,925	2,128,956
Plan Fiduciary Net Position		
Plan Fiduciary Net Position - beginning of period	1,472,928	1,567,294
Contributions - Employer	15,662	14,370
Net Investment Income	(1,461)	15,822
Benefit Payments/Refunds	(116,527)	(115,188)
Other (HRA benefits less reimbursements)	(5,662)	(9,370)
Plan Fiduciary Net Position - end of period	1,364,940	1,472,928
Net Pension Liability - end of period	\$ 725,985	\$ 656,028

SCHEDULE OF NET PENSION LIABILITY

Total pension liability	\$ 2,090,925	\$ 2,128,956
Plan fiduciary net position	1,364,940	1,472,928
Net pension liability	\$ 725,985	\$ 656,028

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

SCHEDULE OF CONTRIBUTIONS

Actuarially determined contribution	\$ 168,897	\$ 145,214
Actual employer contributions	10,000	5,000
Contribution deficiency (excess)	\$ 158,897	\$ 140,214

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	-0.10%	0.94%
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	07/012015
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Amortization Period	Five years, open
Actuarial Asset Valuation Method	Market Value as reported by PNC Bank, Kentucky, Inc., with adjustments as reported by City Treasurer
Actuarial Assumptions:	
Discount Rate	4.39%
Inflation	3%
Other	RP-2014 General Mortality Tables Adjusted to 2006

**CITY OF WINCHESTER, KENTUCKY
COST-SHARING DEFINED PENSION TRUST SCHEDULES & NOTES
For the Year Ended June 30, 2015**

PROPORTIONATE SHARE OF COLLECTIVE NET PENSION LIABILITIES

	2015
NONHAZARDOUS PLAN	
Proportionate share percentage	0.079420%
Proportionate share amount	\$ 2,576,678
Covered Payroll	\$ 1,818,523
Collective share of NPL as % of payroll	70.6%
 Plan's fiduciary net position as a percentage of total pension liability	66.80%
 HAZARDOUS PLAN	
Proportionate share percentage	0.896322%
Proportionate share amount	10,772,225
Covered Payroll	\$ 4,765,643
Collective share of NPL as % of payroll	44.24%
 Plan's fiduciary net position as a percentage of total pension liability	63.46%
 Proportionate share (amounts)	
Nonhazardous	\$ 2,576,678
Hazardous plan	10,772,225
Total proportionate share	\$ 13,348,903

CONTRIBUTIONS

	2015
NONHAZARDOUS PLAN	
Required Contributions	\$ 344,179
Contributions Recognized by Plan	\$ 344,179
Difference	\$ -
 Covered Payroll	\$ 1,818,523
Contributions as Percentage of Payroll	18.93%
 HAZARDOUS PLAN	
Required Contributions	\$ 1,620,719
Contributions Recognized by Plan	\$ 1,620,719
Difference	\$ -
 Covered Payroll	\$ 4,765,643
Contributions as Percentage of Payroll	34.01%

NOTE: These schedules will be expanded to include ten-years as the City continues to implement GASB Statement No. 68. There were no changes in benefit terms or assumptions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WINCHESTER, KENTUCKY
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	FEDERAL GRANT FUND	STATE ASAP FUND	STATE GRANT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:												
Cash and Cash Equivalents	\$ 879,275	\$ 20,634	\$ 2	\$ 43,403	\$ 113,277	\$ 11,472	\$ 223,696	\$ 26,198	\$ 100	\$ 32,688	\$ 12,922	\$ 1,363,667
Accounts Receivable	0	0	0	0	0	0	0	0	22,952	0	0	22,952
Due from Other Funds	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ASSETS	\$ 879,275	\$ 20,634	\$ 2	\$ 43,403	\$ 113,277	\$ 11,472	\$ 223,696	\$ 26,198	\$ 23,052	\$ 32,688	\$ 12,922	\$ 1,386,619
LIABILITIES:												
Accounts Payable	\$ 1,331	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 100	\$ 0	\$ 0	\$ 1,431
Deferred Grant Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Due to Other Funds	0	0	0	0	0	0	0	0	22,952	0	0	22,952
TOTAL LIABILITIES	1,331	0	0	0	0	0	0	0	23,052	0	0	24,383
FUND BALANCES:												
Restricted Fund Balance	877,944	20,634	2	0	0	0	0	0	0	0	12,922	911,502
Committed Fund Balance	0	0	0	43,403	113,277	11,472	223,696	26,198	0	32,688	0	450,733
TOTAL FUND BALANCES	877,944	20,634	2	43,403	113,277	11,472	223,696	26,198	0	32,688	12,922	1,362,236
TOTAL LIABILITIES AND FUND BALANCES	\$ 879,275	\$ 20,634	\$ 2	\$ 43,403	\$ 113,277	\$ 11,472	\$ 223,696	\$ 26,198	\$ 23,052	\$ 32,688	\$ 12,922	\$ 1,386,619

See Auditors' Report and Accompanying Notes

CITY OF WINCHESTER, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	MUNICIPAL AID FUND	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND	ROOM TAX FUND	ADMINISTRATION SPECIAL PROJECTS FUND	MAINSTREETS FUND	POLICE SPECIAL PROJECTS FUND	POLICE FEDERAL FORFEITURE FUND	FIRE SPECIAL PROJECTS FUND	FEDERAL GRANT FUND	STATE ASAP FUND	STATE GRANT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:												
Taxes	\$ 0	\$ 0	\$ 143,273	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 143,273
Intergovernmental	449,007	12,126	0	500	0	3,246	127,083	0	271,533	13,000	3,200	879,695
Investment Income	5,294	192	74	282	445	191	1,356	164	0	214	81	8,293
Other	54	0	609	1,840	52,703	11,215	2,000	10,860	0	0	0	79,280
TOTAL REVENUES	454,355	12,318	143,956	2,622	53,147	14,652	130,439	11,024	271,533	13,214	3,281	1,110,542
EXPENDITURES:												
City Commission	0	0	0	0	0	0	0	0	0	0	0	0
Main Street Department	0	0	0	1,818	21,858	0	0	0	0	0	0	23,677
Administration	0	0	0	0	0	0	0	0	0	0	0	0
Planning	0	0	0	1,736	0	0	0	0	0	0	0	1,736
Conservancy	0	0	0	0	0	0	0	0	0	0	0	0
Police Department	0	0	0	0	0	47,187	65,945	0	6,000	14,926	0	134,059
Fire Department	0	0	0	0	0	0	0	4,374	0	0	0	4,374
Public Works	363,166	28,500	0	0	0	0	0	0	100	0	0	391,766
Intergovernmental	0	0	143,974	0	0	0	0	0	82,043	0	0	226,017
Capital	10,583	0	0	0	0	0	0	0	183,390	0	3,200	197,173
TOTAL EXPENDITURES	373,749	28,500	143,974	3,554	21,858	47,187	65,945	4,374	271,533	14,926	3,200	978,802
Excess (Deficit) of Revenues over Expenditures	80,606	(16,182)	(18)	(932)	31,289	(32,535)	64,494	6,649	0	(1,712)	81	131,740
OTHER FINANCING SOURCES (USES):												
Operating transfers in	0	0	0	0	0	0	0	0	0	0	0	0
Operating transfers out	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	0	0	0	0	0	0	0	0	0	0	0	0
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	80,606	(16,182)	(18)	(932)	31,289	(32,535)	64,494	6,649	0	(1,712)	81	131,740
Fund Balance June 30, 2014	797,338	36,816	20	44,335	81,988	44,008	159,202	19,549	0	34,400	12,841	1,230,496
Fund Balance June 30, 2015	\$ 877,944	\$ 20,634	\$ 2	\$ 43,403	\$ 113,277	\$ 11,472	\$ 223,696	\$ 26,198	\$ 0	\$ 32,688	\$ 12,922	\$ 1,362,236

See Auditors' Report and Accompanying Notes

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

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

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

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1961-1992

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

To the City Commissioners
City of Winchester, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Winchester, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Winchester, Kentucky's basic financial statements, and have issued our report thereon dated January 8, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Winchester, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Summers, McCrary & Sparks, PSC

Winchester, Kentucky
January 8, 2016