



Cloyd & Associates, PSC
Certified Public Accountants

CITY OF MANCHESTER, KENTUCKY

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Manchester, Kentucky
Manchester, Kentucky

Report on Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Manchester, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Manchester Tourism Commission, which is a component unit of the City of Manchester. Those financial statements were audited by other auditors but are presented with the government wide statements.

Basis for Disclaimer of Opinion

We were unable to perform the audit in accordance with professional auditing standards due to a lack of independence with respect to this client. Accordingly, we do not express an opinion on these financial statements.

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 was to conduct an audit of the City of Manchester's financial statements in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and to issue an auditor's report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. However, because of the matter discussed in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the Schedules of the City's Proportionate Share of Net Pension Liability and Schedule of Pension Contributions per the table of contents be presented to supplement the basic financial statements. Management has elected not to present a management discussion and analysis. 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 available 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 Manchester, Kentucky's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual 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 budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 29, 2021 on our consideration of the City of Manchester'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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Manchester, Kentucky's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
January 29, 2021

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City of Manchester, Kentucky
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-Type Activities	Total	Component Unit Manchester Tourism Commission
Current Assets				
Cash	\$ 1,167,205	\$ 79,398	\$ 1,246,603	\$ 381,394
Accounts receivable, net				
Taxes	21,365	-	21,365	26,661
Other	12,059	523,417	535,476	-
Inventory - material and supplies	-	47,259	47,259	-
Total Current Assets	1,200,629	650,074	1,850,703	408,055
Noncurrent Assets				
Restricted cash	96,774	303,239	400,013	-
Capital assets, net of accumulated depreciation	2,968,476	26,584,957	29,553,433	-
Total Noncurrent Assets	3,065,250	26,888,196	29,953,446	-
Total Assets	4,265,879	27,538,270	31,804,149	408,055
Deferred outflows				
Deferred pension outflows	595,357	558,258	1,153,615	-
Deferred OPEB outflows	224,013	186,691	410,704	-
Total deferred outflows	819,370	744,949	1,564,319	-
Liabilities				
Current liabilities				
Bonds and notes payable	75,309	382,856	458,165	-
Capital leases	-	8,893	8,893	-
Accounts payable	81,932	171,334	253,266	-
Accrued liabilities	118,894	91,136	210,030	-
Customer meter deposits	-	237,245	237,245	-
Total current liabilities	276,135	891,464	1,167,599	-
Non current liabilities				
Bonds and notes payable	1,420,560	4,081,137	5,501,697	-
Leases payable	-	-	-	-
Net pension liability	2,035,092	2,079,240	4,114,332	-
Net OPEB liability	598,813	606,120	1,204,933	-
Total non-current liabilities	4,054,465	6,766,497	10,820,962	-
Total liabilities	4,330,600	7,657,961	11,988,561	-
Deferred inflows				
Deferred pension inflows	31,162	183,749	214,911	-
Deferred OPEB inflows	178,582	114,994	293,576	-
Total deferred inflows	209,744	298,743	508,487	-
Net Position				
Invested in capital assets, net of related debt	1,472,607	21,902,472	23,375,079	-
Restricted for:				
Debt service	-	303,239	303,239	-
Other	-	-	-	408,055
Unrestricted	(927,702)	(1,879,196)	(2,806,898)	-
Total Net Position	\$ 544,905	\$ 20,326,515	\$ 20,871,420	\$ 408,055

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Statement of Activities
For the Year Ended June 30, 2019

Function/Programs Primary Government	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		Component Unit Manchester Tourism Commission
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government Business Type Activities	Total	
Governmental Activities:							
General government	\$ 887,567	\$ -	\$ -	\$ -	\$ (887,567)	\$ -	\$ (887,567)
Public safety	1,176,572	137,321	-	-	(1,039,251)	-	(1,039,251)
Highways and streets	-	-	-	-	-	-	-
Interest on long-term debt	20,624	-	-	-	(20,624)	-	(20,624)
Total Governmental Activities	2,084,763	137,321	-	-	(1,947,442)	-	(1,947,442)
Business-Type Activities							
Water and sewer	3,011,491	3,074,004	-	-	-	62,513	62,513
Garbage	470,393	394,637	-	-	(75,756)	(75,756)	(75,756)
Other	419,759	149,755	-	-	(270,004)	(270,004)	(270,004)
Interest expense	124,455	-	-	-	(124,455)	(124,455)	(124,455)
Total Business-Type Activities	4,026,098	3,618,396	-	-	(407,702)	(407,702)	(407,702)
Total Primary Government	\$ 6,110,861	\$ 3,755,717	\$ -	\$ -	\$ (1,947,442)	\$ (407,702)	\$ (2,355,144)
Component Unit							
Tourism Commission	\$ 228,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (228,824)
Total Component Unit	\$ 228,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (228,824)
General Revenues (Expenses):							
		Taxes			1,073,132		1,073,132
		Licenses and permits			41,626		41,626
		Interest income			8,466	2,159	10,625
		Miscellaneous income			310,525		310,525
		Gain on sale of asset			3,162		3,162
		Transfers in / (out)			278,697	(278,697)	-
		Total General Revenues (Expenses)			1,715,608	(276,538)	1,439,070
		Change in Net Position			(231,834)	(684,240)	(916,074)
		Net Position at July 1, 2018			776,739	21,010,755	21,787,494
		Net Position at June 30, 2019			\$ 544,905	\$ 20,326,515	\$ 20,871,420
							\$ 408,055

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
 Balance Sheet - Governmental Funds
 June 30, 2019

	General Fund	LGEA Fund	Municipal Road Aid Fund	Total Governmental Funds
Assets				
Cash	\$ 1,167,205	\$ -	\$ -	\$ 1,167,205
Restricted cash	67,003	22,340	7,431	96,774
Accounts receivable, net				
Tax and license	21,365	-	-	21,365
Other	10,043	-	2,016	12,059
Total Assets	\$ 1,265,616	\$ 22,340	\$ 9,447	\$ 1,297,403
Liabilities and Fund Balances				
Liabilities				
Accounts payable	81,732	200	-	81,932
Accrued liabilities	118,894	-	-	118,894
Total Liabilities	200,626	200	-	200,826
Fund Balances				
Restricted	67,003	22,140	9,447	98,590
Unassigned	997,987	-	-	997,987
Total Fund Balances	1,064,990	22,140	9,447	1,096,577
Total Liabilities and Fund Balances	\$ 1,265,616	\$ 22,340	\$ 9,447	\$ 1,297,403

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Position
 June 30, 2019

Total fund balance per fund financial statements	\$ 1,096,577
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	2,968,476
Deferred outflows of resources are not recorded in the governmental fund financials because they do not affect current resources but are recorded in the statement of net position	819,370
Notes payable are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	(1,495,869)
The net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position	(2,035,092)
The net OPEB liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position	(598,813)
Deferred inflows of resources are not recorded in the governmental fund financials because they do not affect current resources but are recorded in the statement of net position	<u>(209,744)</u>
Net Position For Governmental Activities	<u><u>\$ 544,905</u></u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Statement of Revenues, Expenditures and Changes In
Fund Balances - Governmental Funds
For the Year Ended June 30, 2019

	General Fund	LGEA Fund	Municipal Road Aid Fund	Total Governmental Funds
Revenue				
Taxes	\$ 1,073,132	\$ -	\$ -	\$ 1,073,132
Licenses and permits	41,626	-	-	41,626
Fines and forfeits	58,748	-	-	58,748
Fire Fees	78,573	-	-	78,573
Franchise Fees	119,121	-	-	119,121
Interest income	8,423	43	-	8,466
Intergovernmental programs	62,457	59,094	-	121,551
Miscellaneous income	69,853	-	-	69,853
Total revenue	<u>1,511,933</u>	<u>59,137</u>	<u>-</u>	<u>1,571,070</u>
Expenditures				
General government	784,791	79,143	-	863,934
Public safety	1,082,041	-	-	1,082,041
Highways and streets	-	-	-	-
Debt service	86,854	-	-	86,854
Capital outlay	55,662	-	-	55,662
Total Expenditures	<u>2,009,348</u>	<u>79,143</u>	<u>-</u>	<u>2,088,491</u>
Excess of Revenues Over (Under) Expenditures	(497,415)	(20,006)	-	(517,421)
Other Financing Sources (Uses)				
Proceeds of Long Term Borrowing	105,200	-	-	105,200
Gain on Sale of Asset	11,977	-	-	11,977
Operating transfers in (out)	288,247	(9,550)	-	278,697
Total Other Financing Sources (Uses)	<u>405,424</u>	<u>(9,550)</u>	<u>-</u>	<u>395,874</u>
Net Change in Fund Balance	(91,991)	(29,556)	-	(121,547)
Fund Balance July 1, 2018	<u>1,156,981</u>	<u>51,696</u>	<u>77,153</u>	<u>1,285,830</u>
Fund Balance June 30, 2019	<u>\$ 1,064,990</u>	<u>\$ 22,140</u>	<u>\$ 77,153</u>	<u>\$ 1,164,283</u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2019

Net Changes in Total Fund Balances Per Fund Financial Statements	\$ (121,547)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.</p>	(33,472)
<p>Current year pension contributions are an expense in the governmental statements but are reported as deferred outflows in the government wide statements and calculated pension expense is not recognized in the governmental statements but is recognized on the government wide statements.</p>	4,105
<p>Current year employee benefit (OPEB) contributions are an expense in the governmental statements but are reported as deferred outflows in the government wide statements and calculated OPEB expense is not recognized in the governmental statements but is recognized on the government wide statements.</p>	(41,950)
<p>Note proceeds are reported as current financial resources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets however, issuance of long-term debt creates a liability and does not affect the statement of activities.</p>	(105,200)
<p>Payments for notes and leases are reported as expenditures in governmental funds and thus contribute to the change in fund balance. In the statement of net assets however, repayment of long-term debt reduces the liability and does not affect the statement of activities.</p>	<u>66,230</u>
Changes in Net Position of Governmental Activities	<u><u>\$ (231,834)</u></u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2019

	Water & Sewer	Garbage	Other Proprietary Funds	Total Proprietary Funds
Current Assets				
Cash	\$ 58,734	\$ 5,267	\$ 15,397	\$ 79,398
Accounts receivable, net	490,767	32,650	-	523,417
Inventory	47,259	-	-	47,259
Total Current Assets	<u>596,760</u>	<u>37,917</u>	<u>15,397</u>	<u>650,074</u>
Noncurrent Assets				
Restricted cash	303,239	-	-	303,239
Capital assets, net of accumulated depreciation	26,033,952	78,780	472,225	26,584,957
Total Noncurrent Assets	<u>26,337,191</u>	<u>78,780</u>	<u>472,225</u>	<u>26,888,196</u>
Total Assets	<u>26,933,951</u>	<u>116,697</u>	<u>487,622</u>	<u>27,538,270</u>
Deferred Outflows				
Deferred pension outflows	385,215	113,946	59,097	558,258
Deferred OPEB outflows	128,842	38,077	19,772	186,691
Total Deferred Outflows	<u>514,057</u>	<u>152,023</u>	<u>78,869</u>	<u>744,949</u>
Current Liabilities				
Bonds and notes payable	300,759	82,097	-	382,856
Capital leases	8,893	-	-	8,893
Accounts payable	139,809	13,018	18,507	171,334
Compensated absences	68,885	14,203	8,048	91,136
Customer meter deposits	237,245	-	-	237,245
Total Current Liabilities	<u>755,591</u>	<u>109,318</u>	<u>26,555</u>	<u>891,464</u>
Noncurrent Liabilities				
Bonds and notes payable	4,081,137	-	-	4,081,137
Net pension liability	1,442,093	413,415	223,732	2,079,240
Net OPEB liability	420,386	120,515	65,219	606,120
Total Noncurrent Liabilities	<u>5,943,616</u>	<u>533,930</u>	<u>288,951</u>	<u>6,766,497</u>
Total Liabilities	<u>6,699,207</u>	<u>643,248</u>	<u>315,506</u>	<u>7,657,961</u>
Deferred Inflows				
Deferred pension inflows	127,442	36,535	19,772	183,749
Deferred OPEB inflows	79,757	22,864	12,373	114,994
Total Deferred Inflows	<u>207,199</u>	<u>59,399</u>	<u>32,145</u>	<u>298,743</u>
Net Position				
Invested in capital assets, net of related debt	21,643,163	(3,317)	262,626	21,902,472
Restricted for debt service	303,239	-	-	303,239
Unrestricted	(1,404,800)	(430,610)	(43,786)	(1,879,196)
Total Net Position	<u>\$ 20,541,602</u>	<u>\$ (433,927)</u>	<u>\$ 218,840</u>	<u>\$ 20,326,515</u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Statement of Revenues, Expenses, and Changes in
Net Position - Proprietary Funds
For the Year Ended June 30, 2019

	Water & Sewer	Garbage	Other Proprietary Funds	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 3,074,004	\$ 394,637	\$ 129,755	\$ 3,598,396
Other Income	-	-	20,000	\$ 20,000
Total Operating Revenue	<u>3,074,004</u>	<u>394,637</u>	<u>149,755</u>	<u>3,618,396</u>
Operating Expense				
Chemicals	214,294	-	11,133	225,427
Cost of water purchased	80,214	-	-	80,214
Depreciation	809,497	29,147	23,398	862,042
Dues and subscriptions	10,200	-	1,252	11,452
Dumping expenses	-	131,803	-	131,803
Employee benefits	111,776	20,136	29,419	161,331
Equipment rental	382	-	17,588	17,970
Fuel	43,417	17,880	14,436	75,733
Insurance	62,868	21,243	1,130	85,241
License and permits	4,448	1,662	504	6,614
Maintenance	19,433	2,235	2,838	24,506
Office expense	19,555	8,969	3,234	31,758
Other general expenses	9,452	6,890	-	16,342
Other operating expenses	-	-	5,680	5,680
Payroll tax	39,284	10,141	13,170	62,595
Pension expense	267,336	69,508	53,255	390,099
Processing fees	64,756	150	1,706	66,612
Professional fees	750	-	1,143	1,893
Purchase of resale items	-	-	16,238	16,238
Salaries	551,113	134,206	185,410	870,729
Supplies and materials	194,997	12,898	16,309	224,204
Taxes	75,240	-	6,046	81,286
Uniforms	2,941	1,218	542	4,701
Utilities	429,538	2,307	15,328	447,173
Total Operating Expenses	<u>3,011,491</u>	<u>470,393</u>	<u>419,759</u>	<u>3,901,643</u>
Operating Income (Loss)	<u>62,513</u>	<u>(75,756)</u>	<u>(270,004)</u>	<u>(283,247)</u>
Other Revenues (Expenses)				
Interest revenue	2,159	-	-	2,159
Interest expense	(122,879)	(1,523)	(53)	(124,455)
Total Other Revenues (Expenses)	<u>(120,720)</u>	<u>(1,523)</u>	<u>(53)</u>	<u>(122,296)</u>
Income (loss) before transfers	(58,207)	(77,279)	(270,057)	(405,543)
Transfers (to) / from governmental activities	<u>(514,266)</u>	<u>8,481</u>	<u>227,088</u>	<u>(278,697)</u>
Net Income (Loss)	(572,473)	(68,798)	(42,969)	(684,240)
Net Position at July 1, 2018	<u>21,114,075</u>	<u>(365,129)</u>	<u>261,809</u>	<u>21,010,755</u>
Net Position, June 30, 2019	<u>\$ 20,541,602</u>	<u>\$ (433,927)</u>	<u>\$ 218,840</u>	<u>\$ 20,326,515</u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2019

	Water & Sewer	Garbage	Other Proprietary Funds	Total Proprietary Funds
Cash Flows From Operating Activities				
Receipts from customers	\$ 3,074,004	\$ 394,637	\$ 149,755	\$ 3,618,396
Payments for goods and services	<u>(1,980,774)</u>	<u>(386,024)</u>	<u>(352,955)</u>	<u>(2,719,753)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,093,230</u>	<u>8,613</u>	<u>(203,200)</u>	<u>898,643</u>
Cash Flows From Noncapital Financing Activities				
Transfers (to) from other funds	<u>(514,266)</u>	<u>8,481</u>	<u>227,088</u>	<u>(278,697)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(514,266)</u>	<u>8,481</u>	<u>227,088</u>	<u>(278,697)</u>
Cash Flows From Capital Financing Activities				
Acquisition and construction of capital assets	(173,084)	-	(20,000)	(193,084)
Principal and interest paid on debt	<u>(394,262)</u>	<u>(18,338)</u>	<u>(803)</u>	<u>(413,403)</u>
Net Cash Used by Capital Financing Activities	<u>(567,346)</u>	<u>(18,338)</u>	<u>(20,803)</u>	<u>(606,487)</u>
Cash Flows From Investing Activities				
Interest	<u>2,159</u>	-	-	<u>2,159</u>
Net Cash Provided by Investing Activities	<u>2,159</u>	<u>-</u>	<u>-</u>	<u>2,159</u>
Net Decrease in Cash	13,777	(1,244)	3,085	15,618
Cash - July 1, 2018	<u>348,196</u>	<u>6,511</u>	<u>12,313</u>	<u>367,020</u>
Cash - June 30, 2019	<u>\$ 361,973</u>	<u>\$ 5,267</u>	<u>\$ 15,398</u>	<u>\$ 382,638</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 62,513	\$ (75,756)	\$ (270,004)	\$ (283,247)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	809,497	29,147	23,398	862,042
Net change in pension expense	152,197	40,117	24,281	216,595
Net change in OPEB expense	24,406	5,855	4,002	34,263
(Increase) Decrease in:				
Inventory	5,295	-	-	5,295
Accounts payable	37,563	12,676	10,975	61,214
Compensated Absences	2,126	(3,426)	4,148	2,848
Customer meter deposits	<u>(367)</u>	<u>-</u>	<u>-</u>	<u>(367)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,093,230</u>	<u>\$ 8,613</u>	<u>\$ (203,200)</u>	<u>\$ 898,643</u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Notes to the Financial Statements
Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Manchester, Kentucky (City) is a home rule city under the laws of the Commonwealth of Kentucky and operates under the Mayor-Council form of government, who are elected at large by citizens of the City on a non-partisan basis. The City provides the following services: public safety, public works, recreation, community development and certain utility functions. The accounting policies of the City of Manchester, Kentucky conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

As defined by accounting principles generally accepted in United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. To be complete, the financial statements of the reporting entity should include the primary government and its component units. The City has included a summary of the most recent audits of its component units in these primary government financial statements for the year ended June 30, 2019.

Based on the above criteria, the component unit of the City is the City of Manchester Tourism Commission. The Component unit of the City issues separately audited Component Unit Financial Statements (CUFS). Copies of the CUFS may be obtained from the City Clerk at Manchester City Hall.

Government-wide Financial Statements

The government-wide financial statements include a statement of net position and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. Governmental Funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary Fund Types are used to account for operations that are financed and operated in a manner similar to business enterprises – where intent of the governing body is that costs of providing services are to be financed and recovered primarily through user charges.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following funds are used by the City of Manchester, Kentucky:

I. Government Fund Types

- (A) The General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Most of the essential governmental services such as police and fire protection, street, and general administration are reported in this fund. This is a major fund of the District.
- (B) The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted by law to be expended for specific purposes. The following Special Revenue Funds are maintained by the City:

Municipal Road Aid Fund – A special revenue fund to account for money received from the State of Kentucky to be used exclusively for repair of roads.

LGEA Fund – A special revenue fund used to account for the Local Government Economic Assistance activity.

II. Proprietary Fund Types

Proprietary Funds are maintained on the accrual basis of accounting. Proprietary funds apply all statements of the Financial Accounting Standards Board issued after November 30, 1989, as they relate to business enterprises unless they contradict existing Government Accounting Standards Board pronouncements. The City's enterprise operations include water, sewer and sanitation services, as well as the community center and golf course. The operations of the enterprise funds are financed primarily by user charges. The Water and Sewer Fund and Garbage Fund are considered major proprietary funds by the City. The Community Center Fund and The Golf Course Fund are Non-Major Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied for. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments and pollution remediation costs, are recorded only when payment is due (matured).

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charged to customers for services. Operating expenses for enterprise funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions.

Budgeting

Budgets are adopted on a basis consistent with generally accepted accounting principles and in accordance with Kentucky budgetary law for cities. Annual appropriated budgets are legally adopted for the general fund. The City does not adopt or present the budgets for the special revenue funds.

Cash and Cash Equivalents

The City considers demand deposits including certificates of deposits to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash for purposes of the Statement of Cash Flows.

Accounts Receivable

Accounts receivable from customers are stated at amounts due to the City less an allowance for doubtful accounts. Unbilled receivables represent an estimate of revenue earned but not billed between the time that meters are last read in June and the last day of the fiscal year which is June 30. Allowance for doubtful accounts at June 30, 2019 totaled \$19,121 for the Water & Sewer Fund and \$13,993 for the Garbage Fund.

Inventories

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

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

Bond Issue Costs

Costs associated with the issuance of bond obligations, including fiscal and rating agency fees, paying agency fees, and attorney fees, are reported as expenditures in the governmental funds financial statements as well as the statement of activities.

Capital Assets

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 expenditures in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under Governmental Accounting Standards Board Statement No. 34 (GASB-34), all capital assets, whether owned by governmental activities or business-type activities, as applicable, are recorded and depreciated in the government-wide financial statements. No capital assets or depreciation are shown in the governmental funds financial statements. The City generally considers assets with a cost of \$5,000 and useful lives in excess of one year or more to be a depreciable capital asset. Those presented as not depreciable include land and construction in progress.

At the implementation of GASB-34, the City was a Phase 3 government (governments with total annual revenues of less than \$10 million). Consequently, the City was not required by the provisions of GASB-34 to report major infrastructure assets retroactively. The City chose not to record infrastructure assets retroactively; however, as of July 1, 2003, all infrastructure asset additions and disposals are reported by the City in their related categories.

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. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major additions that are substantially a new asset are capitalized over the useful lives of that asset category as determined by the City's management.

Major outlays for capital assets and improvements are capitalized as the projects are constructed and put into use. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Governmental activities:	
Buildings and improvements	25-50 years
Machinery and equipment	5-30 years
Vehicles	5-20 years
Infrastructure	5-40 years
Business-type activities:	
Water intake and purification	25-45 years
Sewage disposal	25 years
Transmission mains and accessories	30-50 years
Buildings	25-30 years
Equipment and vehicles	5-10 years

Capitalized Interest

The City has the option to capitalize interest costs when incurred on debt proceeds are that used to finance the construction of assets, but chooses not to capitalize interest costs.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Activity

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 30 and are due December 31. The property tax rates assessed for the year ended June 30, 2019 to finance General Fund operations were \$.36 per \$100 valuation for real property, \$0.36 per \$100 valuation for business personal property, and \$0.35 per \$100 for motor vehicles. The City bills and collects its own property taxes. City property tax revenues are recognized when paid; unpaid property taxes are recorded and fully reserved at year-end due to the uncertainty of collection. All delinquent taxes at the end of the fiscal year are considered uncollectible for financial statement purposes.

Accumulated Unpaid Vacation, Sick Leave, and other Employee Benefit Amounts

Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred in proprietary funds, when material (using the accrual basis of accounting). The amount of unpaid vacation recorded as expenditures are amounts accrued that would normally be liquidated with expendable available financial resources and are considered current liabilities. Sick pay and other employee benefit amounts are recognized only as paid.

Pension Plans

Full-time City employees are members of the State of Kentucky County Employees' Retirement System (CERS). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of June 30 of the prior fiscal year by the System's actuary.

Other Postemployment Benefits (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous and Hazardous duty employees (CERS) and additions to/deductions from the net position has been determined on the same basis as they are reported by the pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Fund Balance Reserves

The City has elected to adopt GASB Statement Number 54 for the current and subsequent reporting periods. This statement substantially changes the terminology used to describe different components of the fund balance. Under this statement, the fund balance is separated into five categories as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor, such as an endowment or that which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Council. The City Council must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The City does not employ encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation and would normally be in assigned fund balance. Assigned fund balance includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, governmental, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

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

Deferred Inflows and Deferred Outflows of Resources

A deferred inflow of resources is defined as an acquisition of net assets by the government that is applicable to future reporting period. A deferred outflow of resources is defined as a consumption of net assets by the government that is applicable to a future reporting period.

NOTE 2 -- CASH

The City maintains their cash accounts with local banks. Cash consists of demand deposit accounts and certificates of deposit. At June 30, 2019, the carrying amount of cash was \$1,655,692 and the bank balance was \$1,694,777.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 3 - CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2019, none of the City's bank balance was exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the City's name.

Cash and cash equivalents at June 30, 2019 consisted of the following:

First National Bank of Manchester	\$ 1,463,512
PNC Bank	160,577
Regions Bank	<u>70,688</u>
	<u><u>\$ 1,694,777</u></u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 1,250,980
Proprietary funds	<u>404,712</u>
	<u><u>\$ 1,655,692</u></u>

NOTE 4 – RECEIVABLES

Receivables at June 30, 2019 recorded in the City's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental	Business-Type	
	General	Water & Sewer	Garbage
General	\$ 31,408	\$ -	\$ -
Customer charges	-	382,416	46,643
Unbilled customer charges	-	127,472	-
Gross receivables	<u>31,408</u>	<u>509,888</u>	<u>46,643</u>
Less: Allowance for uncollectibles	-	(19,121)	(13,993)
Net total receivables	<u><u>\$ 31,408</u></u>	<u><u>\$ 490,767</u></u>	<u><u>\$ 32,650</u></u>

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 recorded in the City's individual major funds in the aggregate are as following:

	Governmental		Business-Type			
	General	LGEA	Water & Sewer	Garbage	Community Center	Golf Course
General	<u>\$81,732</u>	<u>\$200</u>	<u>\$139,809</u>	<u>\$13,018</u>	<u>\$2,223</u>	<u>\$16,284</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 6 - CAPITAL ASSETS

A summary of capital asset activity during the fiscal year ended June 30, 2019 is as follows:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019
Governmental Activities:				
Land	\$ 1,890,908	\$ -	\$ -	\$ 1,890,908
Land improvements	472,467	-	-	472,467
Buildings and improvements	926,886	30,747	-	957,633
Vehicles	704,470	19,915	33,185	691,200
Equipment	485,466	5,000	-	490,466
Total capital assets	<u>4,480,197</u>	<u>55,662</u>	<u>33,185</u>	<u>4,502,674</u>
Less accumulated depreciation				
Land improvements	269,206	27,686	-	296,892
Buildings and improvements	153,304	18,845	-	172,149
Vehicles	581,736	30,331	24,371	587,696
Equipment	474,002	3,459	-	477,461
Total accumulated depreciation	<u>1,478,248</u>	<u>80,321</u>	<u>24,371</u>	<u>1,534,198</u>
Net capital assets-Governmental	<u>\$ 3,001,949</u>	<u>\$ (24,659)</u>	<u>\$ 8,814</u>	<u>\$ 2,968,476</u>

Depreciation expense was charged to the governmental functions as follows:

Governmental funds	\$ 20,080
Public safety	<u>60,241</u>
	<u>\$ 80,321</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 6 - CAPITAL ASSETS (continued)

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019
Business-Type Activities:				
Land	\$ 209,600	\$ -	\$ -	\$ 209,600
Buildings and improvements	522,926	-	-	522,926
Utility systems	40,058,210	173,084	-	40,231,294
Vehicles	757,227	-	-	757,227
Equipment	852,743	20,000	-	872,743
Construction in progress	16,000	-	-	16,000
Total capital assets	42,416,706	193,084	-	42,609,790
Less accumulated depreciation				
Buildings and improvements	278,235	12,489	-	290,724
Utility systems	13,558,739	778,734	-	14,337,473
Vehicles	615,479	37,245	-	652,724
Equipment	710,337	33,573	-	743,910
Total accumulated depreciation	15,162,790	862,041	-	16,024,831
Net capital assets -				
Business-Type Activities	\$ 27,253,916	\$ (668,957)	\$ -	\$ 26,584,959

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 7 – LONG-TERM DEBT (BUSINESS-TYPE ACTIVITIES)

The following is a summary of long-term debt of the business-type activities for the year ended June 30, 2019.

	Annual Interest Rate	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Current Portion
Revenue bonds of 1996, payable semi-annually, with principal due in varying amounts each year through 2035.	4.50%	\$ 127,500	\$ -	\$ 5,000	\$ 122,500	\$ 5,000
Kentucky Infrastructure Authority note, payable semi-annually through 2022, secured by system revenue.	1.80%	241,953	-	52,852	189,101	78,794
Revenue bonds of 2004, payable semi-annually, with principal due in varying amounts each year through 2043, secured by the Manchester Water and Sewer system.	4.125%	420,000	-	9,000	411,000	9,000
Revenue bonds of 2004, payable semi-annually, with principal due in varying amounts each year through 2043, secured by the Manchester Water and Sewer system.	4.125%	857,000	-	18,000	839,000	19,000
Kentucky Infrastructure Authority Note for the construction of a water plant. Principal payments begin when construction is complete. Total loan amount is \$2,232,414.	1.00%	1,769,606	-	34,310	1,735,296	103,965
Revenue bonds of 2010, payable semi-annually, with principal due in varying amounts each year through 2030, secured by the Manchester Water and Sewer system.	3.79%	1,220,000	-	135,000	1,085,000	85,000
Note payable, First National Bank of Manchester, secured by garbage truck.	4.00%	82,200	-	103	82,097	82,097
Note payable, BB&T Bank, monthly payments of \$2,400.97 for five years secured by a garbage truck.	2.09%	16,712	-	16,712	-	-
		<u>\$ 4,734,971</u>	<u>\$ -</u>	<u>\$ 270,977</u>	<u>\$ 4,463,994</u>	<u>\$ 382,856</u>

Future bond principal and interest payment amounts are as follows:

	Principal	Interest and Fees
2020	370,019	137,258
2021	256,200	117,544
2022	260,007	110,590
2023	205,094	102,819
2024	212,811	96,462
2025-2029	1,117,576	378,948
2030-2034	789,630	244,593
2035-2039	736,658	133,408
2040-2044	515,999	39,759
	<u>\$ 4,463,994</u>	<u>\$ 1,361,381</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 8 – LONG-TERM DEBT (GOVERNMENTAL ACTIVITIES)

The following is a summary of long-term debt of the governmental activities for the year ended June 30, 2019.

	Annual <u>Interest Rate</u>	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 1, 2019</u>	Current <u>Portion</u>
BB&T Note, payable monthly through January 2019, secured by fire truck	2.16%	\$ 6,132	\$ -	\$ 6,132	\$ -	\$ -
First National Bank Note, payable as one principal amount in March 2025, secured by certificate of deposit	Variable	399,983	-	-	399,983	-
First National Bank Note, payable as one principal amount, secured by certificate of deposit	Variable	250,584	-	53	250,531	-
First National Bank Note, payable as one principal amount in March 2025, secured by certificate of deposit	Variable	250,200	-	31	250,169	-
First National Bank Note, payable monthly through March 2024, secured by certificate of deposit	Variable	-	105,200	5,014	100,186	20,309
EA Partners, Inc, payable in 10 installments of \$55,000	0%	550,000	-	55,000	495,000	55,000
		<u>\$ 1,456,899</u>	<u>\$ 105,200</u>	<u>\$ 66,230</u>	<u>\$ 1,495,869</u>	<u>\$ 75,309</u>

Future bond principal and interest payment amounts are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	75,309	15,013
2021	75,719	14,919
2022	76,137	14,398
2023	76,563	14,081
2024	972,141	13,648
2025-2028	220,000	-
	<u>\$ 1,495,869</u>	<u>\$ 72,059</u>

NOTE 9 – CAPITAL LEASES

The following is a summary of capital leases obligations of the business-type activities for the year ended June 30, 2019.

	Annual <u>Interest Rate</u>	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2019</u>	Current <u>Portion</u>
Caterpillar Financial Services Lease, secured by equipment	3.200%	\$ 26,113	-	\$ 17,220	\$ 8,893	\$ 8,893
John Deere Financial Lease, secured by equipment	4.000%	\$ 751	-	\$ 751	-	-
		<u>\$ 26,864</u>	<u>\$ -</u>	<u>\$ 17,971</u>	<u>\$ 8,893</u>	<u>\$ 8,893</u>

Future lease principal and interest payment amounts are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 8,893	\$ 60
	<u>\$ 8,893</u>	<u>\$ 60</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 10 – OPERATING LEASES

The City also entered into an operating lease with Wells Fargo Financial Leasing for Golf Carts on March 10, 2014. Total payments made by the City were \$17,588 for the year ended June 30, 2019.

NOTE 11 – RETIREMENT PLANS

The City contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer public employer retirement system (PERS) administered by the Kentucky retirement system. All full-time employees are eligible and must participate in the State PERS. The City participates in both the hazardous and non-hazardous portion of the plan.

General information about the County Employees Retirement System Non-Hazardous and Hazardous duty employees (“CERS”)

Plan description—Employees covered by 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 employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Non-hazardous

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	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
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	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
	Reduced retirement	Not available

Required contribution

Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 11 – RETIREMENT PLANS (continued)

Hazardous

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	20 years service credit
	Reduced retirement	At least 15 years service credit and 50 years old
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	25 years service Or age 60 and at least 60 months of service credit
	Reduced retirement	Age 50 or older with at least 180 months of service credit
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	25 years service Or age 60 and at least 60 months of service credit
	Reduced retirement	Not available

Required contribution

Tier 1	8%
Tier 2	8% + 1% for insurance
Tier 3	8% + 1% for insurance

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$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. Five years' service is required for nonservice-related disability benefits.

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

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

City's proportionate share of the CERS net pension liability non-hazardous	\$ 2,431,859
City's proportionate share of the CERS net pension liability hazardous	<u>1,682,472</u>
	<u>\$ 4,114,331</u>

The net pension liability for each plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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, 2018, the City's proportion was 0.0399930% of non-hazardous and 0.069568% of hazardous.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 11 – RETIREMENT PLANS (continued)

For the year ended June 30, 2019, the City recognized pension expense of \$737,831 related to CERS hazardous and non-hazardous. At June 30, 2019, the City 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	\$ 213,216	\$ 35,597
Changes of assumptions	416,756	-
Net difference between projected and actual earnings on pension plan investments	175,444	223,582
Changes in proportion and differences between District contributions and proportionate share of contributions	114,646	179,939
City contributions subsequent to the measurement date	229,334	-
Total	\$ 1,149,396	\$ 439,118

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:	
2019	\$ 378,648
2020	166,807
2021	(43,858)
2022	(20,653)
	\$ 480,944

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

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

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.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 11 – RETIREMENT PLANS (continued)

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

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City's 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 (We calculated the amounts in this schedule):

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS Non-hazardous City's proportionate share of net pension liability	5.25% \$ 3,061,458	6.25% \$ 2,431,859	7.25% \$ 1,904,365
CERS Hazardous City's proportionate share of net pension liability	5.25% \$ 2,108,027	6.25% \$ 1,682,472	7.25% \$ 1,330,671

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.

The City also has a defined contribution plan (457b) in which employees are eligible to participate.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CERS

Plan description—The City contributes to the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension / OPEB plan administered by Kentucky Retirement Systems (KRS) that covers members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS – CERS (continued)

Benefits provided—CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance Fund.

Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type / amount of service, participation date, and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at age 65 with at least 4 years of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at age 57 if the member's age and years of service equal 87, or at age 65 with at least 5 years of service credit.

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

	OPEB-CERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 138,046
Changes of assumptions	293,796	2,995
Net difference between projected and actual earning on plan investments	-	95,986
Changes in proportion and differences between contributions and proportionate share of contributions	32,482	56,550
District contribution subsequent to the measurement date	82,748	-
Total	\$ 409,026	\$ 293,577

Of the total amount reported as deferred outflows of resources related to the MIP OPEB, resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net MIP OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to MIP OPEB will be recognized in the City's MIP OPEB expense as follows:

Year ended June 30:	
2019	\$ 22,557
2020	22,557
2021	(4,817)
2022	(4,394)
2023	(376)
Thereafter	(2,828)
	\$ 32,699

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS – CERS (continued)

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB-- The net pension and OPEB liabilities reported as of June 30, 2019, were measured as of June 30, 2018, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The City's proportion of the liabilities was based on a projection of the City's long-term share of contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. A discount rate of 5.85% was used for non hazardous duty employees to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 5.85% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. A discount rate of 5.97% was used for hazardous duty employees to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 5.85% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019.

The following table presents the City's proportionate share of the collective net MIP OPEB liability for non-hazardous hazardous duty employees, calculated using the discount rate of 5.85%, as well as what the City's proportionate share of the collective net MIP OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate. The following table presents the City's proportionate share of the collective net MIP OPEB liability for hazardous hazardous duty employees, calculated using the discount rate of 5.97%, as well as what the City's proportionate share of the collective net MIP OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.97%) or 1-percentage-point higher (6.97%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS Non-Hazardous	4.85%	5.85%	6.85%
City's proportionate share of net OPEB liability	\$ 920,765	\$ 708,914	\$ 528,455
CERS Hazardous	4.97%	5.97%	6.97%
City's proportionate share of net OPEB liability	\$ 689,492	\$ 496,020	\$ 341,141

The projection of cash flows used to determine the discount rates is based on the assumption that each participating employer in CERS will contribute the actuarially determined contribution rates, which are determined using a closed funding period (25 years as of June 30, 2017), as well as the actuarial assumptions and methods adopted by the KRS Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the system.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates--The following presents the City's proportionate share of the net OPEB liability, as well as what the City's proportionate share of the net OPB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
City's Share of Net OPEB Liability	\$ 865,607	\$ 1,204,934	\$ 1,614,368

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS – CERS (continued)

Plan Fiduciary Net Position--Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the Pension/OPEB Plans--The City reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended June 30, 2019.

Pension	OPEB
\$ -	\$ -

NOTE 13 – CONTINGENT LIABILITIES AND COMMITMENTS

The City participates in State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. If the grantor's review indicates that the funds received under the grant program have not been used for the intended purpose, the grantors may request a refund of moneys advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their program.

NOTE 14 – RISK MANAGEMENT

The City is exposed to various risks of loss related to limited torts; theft of, damage and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

NOTE 15 – DEFICIT FUND BALANCES

The City had a deficit net position in the Garbage Fund \$433,927 at June 30, 2019:

NOTE 16 – TRANSFER OF FUNDS

The following transfers were made during the year:

Transfers to/from other funds	Amount	Purpose
General Fund	\$ 288,247	Operating transfer
LGEA Fund	(9,550)	Operating transfer
Water & Sewer Fund	(514,266)	Operating transfer
Garbage Fund	8,481	Operating transfer
Community Center Fund	(21,000)	Operating transfer
Golf Course Fund	248,088	Operating transfer
	\$ -	

NOTE 19 – RELATED PARTY TRANSACTIONS

The City Management has chosen to rent specific residential properties to employees at less than estimated fair market rental value. Management chooses this action to ensure that certain properties are protected when not in use. As a condition for providing the property at less than fair market rental rates, the employee must reside at the location.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2019

NOTE 20 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 29, 2021, the date on which the financial statements were available to be issued. There were no events as of the date of the financial statements that would require adjustment to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Manchester, Kentucky
 Required Supplemental Budgetary Comparison - General Fund
 Year Ended June 30, 2019

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues	\$ 2,107,470	\$ 1,511,933	\$ (595,537)
Expenditures			
General government	981,566	784,791	196,775
Public Safety	1,015,403	1,082,041	(66,638)
Highways and streets	5,993	-	5,993
Culture and recreation	12,068	-	12,068
Debt service	29,965	86,854	(56,889)
Capital outlay	62,475	55,662	6,813
Total Expenditures	<u>2,107,470</u>	<u>2,009,348</u>	<u>98,122</u>
Other sources and uses			
Proceeds of Long Term Borrowing	-	105,200	105,200
Gain on Sale of Asset	-	11,977	11,977
Forgiveness of Debt Income	-	-	-
Transfers in (out)	-	288,247	288,247
Total other sources and uses	<u>-</u>	<u>405,424</u>	<u>405,424</u>
Net Changes in Fund Balances	-	(91,991)	(91,991)
Fund Balance July 1, 2018	<u>-</u>	<u>1,156,981</u>	<u>1,156,981</u>
Fund Balance June 30, 2019	<u>\$ -</u>	<u>\$ 1,064,990</u>	<u>\$ 1,064,990</u>

NOTE: 2018 is the most recent budget available for comparison.

Expenditures exceeded the budget in the current year.

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Schedule of the City's Proportionate
Share of the Net Pension Liability
County Employees Retirement System (Hazardous)
June 30, 2019

	City's proportion of net pension liability (asset)	City's proportionate share of the net pension liability (asset)	City's covered-employee payroll	City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2019	0.06957%	\$ 1,682,472	\$ 404,613	415.82%	49.26%
2018	0.08136%	\$ 1,820,138	\$ 465,053	391.38%	53.30%
2017	0.07879%	\$ 1,352,118	\$ 446,591	302.76%	55.50%
2016	0.07810%	\$ 1,198,924	\$ 409,661	292.66%	59.97%
2015	0.07358%	\$ 854,000	\$ 417,748	204.43%	63.46%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
Schedule of the City's Contributions
County Employees Retirement System (Hazardous)
June 30, 2019

	Contractually required contribution	Contributions in relation to contractually required contribution **	Contribution deficiency (excess)	City's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	\$ 86,032	\$ 86,032	\$ -	\$ 404,613	21.26%
2018	\$ 96,955	\$ 96,955	\$ -	\$ 465,053	20.85%
2017	\$ 96,738	\$ 96,738	\$ -	\$ 445,591	21.71%
2016	\$ 82,997	\$ 82,997	\$ -	\$ 409,661	20.26%
2015	\$ 86,598	\$ 86,598	\$ -	\$ 417,748	20.73%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
 Schedule of the City's Proportionate
 Share of the Net Pension Liability
 County Employees Retirement System (Non-Hazardous)
 June 30, 2019

	City's proportion of net pension liability (asset)	City's proportionate share of the net pension liability (asset)	City's covered-employee payroll	City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.0399930%	\$ 2,431,859	\$ 1,009,361	240.93%	53.54%
2018	0.037427%	\$ 2,190,717	\$ 1,032,342	212.21%	53.30%
2017	0.039405%	\$ 1,940,136	\$ 995,700	194.85%	55.50%
2016	0.039982%	\$ 1,719,045	\$ 1,034,038	166.25%	59.97%
2015	0.037870%	\$ 1,229,000	\$ 1,020,428	142.07%	66.80%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
Schedule of the City's Contributions
County Employees Retirement System (Non-Hazardous)
June 30, 2019

	Contractually required contribution	Contributions in relation to contractually required contribution **	Contribution deficiency (excess)	City's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	\$ 127,121	\$ 143,302	\$ -	\$ 1,009,361	14.20%
2018	\$ 127,121	\$ 127,121	\$ -	\$ 1,032,342	12.31%
2017	\$ 138,900	\$ 138,900	\$ -	\$ 995,700	13.95%
2016	\$ 128,427	\$ 128,427	\$ -	\$ 1,034,038	12.42%
2015	\$ 130,105	\$ 130,105	\$ -	\$ 1,020,428	12.75%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
 Schedule of the City's Proportionate
 Share of the Net OPEB Liability
 County Employees Retirement System (Hazardous)
 June 30, 2019

	City's proportion of net OPEB liability (asset)	City's proportionate share of the net OPEB liability (asset)	City's covered-employee payroll	City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2019	0.06957%	\$ 496,020	\$ 404,613	122.59%	64.24%
2018	0.08136%	\$ 672,539	\$ 465,053	144.62%	58.99%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
 Schedule of the City's Contributions OPEB
 County Employees Retirement System (Hazardous)
 June 30, 2019

	Contractually required contribution	Contributions in relation to contractually required contribution **	Contribution deficiency (excess)	City's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	\$ 36,234	\$ 36,234	\$ -	\$ 404,613	8.96%
2018	\$ 41,756	\$ 41,756	\$ -	\$ 465,053	8.98%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
Schedule of the City's Proportionate
Share of the Net OPEB Liability
County Employees Retirement System (Non-Hazardous)
June 30, 2019

	City's proportion of net OPEB liability (asset)	City's proportionate share of the net OPEB liability (asset)	City's covered-employee payroll	City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2019	0.039928%	\$ 708,914	\$ 1,009,361	70.23%	57.62%
2018	0.037427%	\$ 752,411	\$ 1,032,342	72.88%	52.39%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
 Schedule of the City's Contributions OPEB
 County Employees Retirement System (Non-Hazardous)
 June 30, 2019

	Contractually required contribution	Contributions in relation to contractually required contribution **	Contribution deficiency (excess)	City's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2019	\$ 46,514	\$ 46,514	\$ -	\$ 1,009,361	4.61%
2018	\$ 43,103	\$ 43,103	\$ -	\$ 1,032,342	4.18%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

City of Manchester, Kentucky
Notes to the Required Supleplementary Information
Year Ended June 30, 2019

CHANGES OF ASSUMPTIONS

There were no changes in assumptions.

CHANGES OF BENEFIT TERMS

There were no changes in benefit terms..

OTHER SUPPLEMENTARY INFORMATION

City of Manchester, Kentucky
Combining Statement of Net Position - Nonmajor Proprietary Funds
June 30, 2019

	Golf Course	Community Center	Total Proprietary Funds
Assets			
Current Assets			
Cash	\$ 3,273	\$ 12,124	\$ 15,397
Accounts receivable	-	-	-
Total Current Assets	<u>3,273</u>	<u>12,124</u>	<u>15,397</u>
Noncurrent Assets			
Restricted cash	-	-	-
Capital assets, net of accumulated depreciation	376,225	96,000	472,225
Total Noncurrent Assets	<u>376,225</u>	<u>96,000</u>	<u>472,225</u>
Total Assets	379,498	108,124	487,622
Deferred Outflows			
Deferred pension outflows	59,097	-	59,097
Deferred OPEB outflows	19,772	-	19,772
Total Deferred Outflows	<u>78,869</u>	<u>-</u>	<u>78,869</u>
Liabilities			
Current Liabilities			
Bonds and notes payable	-	-	-
Capital Leases payable	-	-	-
Accounts payable	16,284	2,223	18,507
Compensated absences	8,048	-	8,048
Total Current Liabilities	<u>24,332</u>	<u>2,223</u>	<u>26,555</u>
Noncurrent Liabilities			
Net pension liability	223,732	-	223,732
Net OPEB liability	65,219	-	65,219
Total Noncurrent Liabilities	<u>288,951</u>	<u>-</u>	<u>288,951</u>
Total Liabilities	<u>313,283</u>	<u>2,223</u>	<u>315,506</u>
Deferred Inflows			
Deferred pension inflows	19,772	-	19,772
Deferred OPEB inflows	12,373	-	12,373
Total Deferred Inflows	<u>32,145</u>	<u>-</u>	<u>32,145</u>
Net Position			
Invested in capital assets, net of related debt	166,626	96,000	262,626
Restricted	-	-	-
Unrestricted	(53,687)	9,901	(43,786)
Total Net Position	<u>\$ 112,939</u>	<u>\$ 105,901</u>	<u>\$ 218,840</u>

The accompanying notes are an integral part of these financial statements.

City of Manchester, Kentucky
Combining Statement of Revenues, Expenses, and Changes
in Net Position - Nonmajor Proprietary Funds
For the Year Ended June 30, 2018

	Golf Course	Community Center	Total Other Proprietary Funds
Operating Revenues			
Charges for services	\$ 84,341	\$ 45,414	\$ 129,755
Other income	20,000	-	20,000
Total Operating Revenues	<u>104,341</u>	<u>45,414</u>	<u>149,755</u>
Operating Expenses			
Chemicals	11,133	-	11,133
Depreciation	17,398	6,000	23,398
Dues and subscriptions	1,252	-	1,252
Employee benefits	29,419	-	29,419
Equipment rental	17,588	-	17,588
Fuel	14,436	-	14,436
Insurance	1,130	-	1,130
Licenses & permits	414	90	504
Maintenance	1,402	1,436	2,838
Office Expense	1,924	1,310	3,234
Other operating expenses	5,008	672	5,680
Payroll Taxes	13,170	-	13,170
Pension expense	53,255	-	53,255
Processing fees	1,603	103	1,706
Professional fees	650	493	1,143
Purchase of resale items	16,238	-	16,238
Salaries	185,410	-	185,410
Supplies and materials	10,460	5,849	16,309
Taxes	4,842	1,204	6,046
Uniforms	542	-	542
Utilities	8,648	6,680	15,328
Total Operating Expenses	<u>395,922</u>	<u>23,837</u>	<u>419,759</u>
Operating income/(loss)	(291,581)	21,577	(270,004)
Other Revenues (Expenses)			
Interest revenue	-	-	-
Interest expense	(53)	-	(53)
Total other Revenues (Expenses)	<u>(53)</u>	<u>-</u>	<u>(53)</u>
Loss before transfers	(291,634)	21,577	(270,057)
Transfers (to)/from governmental activities	<u>248,088</u>	<u>(21,000)</u>	<u>227,088</u>
Net gain/(loss)	(43,546)	577	(42,969)
Net Position at July 1, 2018	<u>156,485</u>	<u>105,324</u>	<u>261,809</u>
Net Position at June 30, 2019	<u>\$ 112,939</u>	<u>\$ 105,901</u>	<u>\$ 218,840</u>

The accompanying notes are an integral part of these financial statements.



Cloyd & Associates, PSC
Certified Public Accountants

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

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Manchester, Kentucky
Manchester, Kentucky

We were engaged to audit the accompanying financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Manchester, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Manchester, 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 the City of Manchester, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Manchester, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as described in the accompanying comments and recommendations we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying comments and recommendations as items 2019-01, 2019-02, and 2019-03 to be material weaknesses.

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. We do not consider any of the deficiencies described in the accompanying comments and recommendations to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manchester, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is included in the accompanying comments and recommendations as items 2019-04, 2019-05, and 2019-06.

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
January 29, 2021

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MANAGEMENT LETTER COMMENTS



Cloyd & Associates, PSC
Certified Public Accountants

Honorable Mayor and Members of the City Council
City of Manchester, Kentucky
Manchester, Kentucky

In planning and performing our audit of the basic financial statements of the City of Manchester, Kentucky for the year ended June 30, 2019, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated January 29, 2021, on the basic financial statements of the City of Manchester, Kentucky.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
January 29, 2021



City of Manchester
Comments and Recommendations
Year Ended June 30, 2019

Prior Year Comments

INTERNAL CONTROL – MATERIAL WEAKNESSES

2018-01 There was a general lack of sufficient functioning controls and failure of management and governing board oversight, including timely preparation and management review of monthly bank statements. The City did not have controls in place that would prevent, detect and correct a potential material misstatement in the financial statement or the notes if one occurred.

This has not been corrected

2018-02 Duties should be segregated to provide reasonable assurance that transactions are properly handled and recorded and that internal controls are in place to prevent undetected errors and theft. There is a lack of segregation of duties in the areas of cash, accounts receivable, cash receipts, accounts payable, cash disbursements and reconciliation of cash. The same individual is responsible for billing, making adjustments to customer accounts, cash collections, and posting payments to customer accounts in the water company. The City Clerk is responsible for making bank deposits and reconciling bank accounts as well as posting the transactions to the general ledger. This creates a weakness in internal controls that could provide opportunity for misappropriation of funds that may go undetected or create an opportunity for theft to occur. The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

This has not been corrected

2018-03 Bank reconciliations were not completed and up to date as of the date of fieldwork.

This has been corrected

2018-04 There was a failure to cross train which resulted in a catastrophic failure of the few internal controls operating with the loss of the City Clerk.

This has not been corrected

STATE LAWS & REGULATIONS – NON COMPLIANCE

2018-05 There was a failure to comply with KRS 65.905, which requires that local government as defined in KRS 65.900 shall annually, after the close of the fiscal year, complete a uniform financial information report. The report shall be submitted to the DLG by May 1 immediately following the close of the fiscal year. The City of Manchester did not complete the required report timely for the fiscal years ending June 30, 2018 and June 30, 2019 on time. The City was informed that Municipal Road Aid funding was suspended until these reports are completed.

This has not been corrected

2018-06 There was failure to establish an ABC fund required by Kentucky law in order to segregate and track the collection and use of regulatory fees.

This has not been corrected

2018-07 There was no budget passed for June 30, 2019. Kentucky law requires a budget every year.

Management's Response: Management will correct the issue

Current Year Comments

INTERNAL CONTROL – MATERIAL WEAKNESSES

2019-01 There was a general lack of sufficient functioning controls and failure of management and governing board oversight, including timely preparation and management review of monthly bank statements. The City did not have controls in place that would prevent, detect and correct a potential material misstatement in the financial statement or the notes if one occurred.

Management's Response: Management was told since they were starting a new accounting system at the cost of \$125.00 per month they would be trained on reconciling bank recs.

2019-02 Duties should be segregated to provide reasonable assurance that transactions are properly handled and recorded and that internal controls are in place to prevent undetected errors and theft. There is a lack of segregation of duties in the areas of cash, accounts receivable, cash receipts, accounts payable, cash disbursements and reconciliation of cash. The same individual is responsible for billing, making adjustments to customer accounts, cash collections, and posting payments to customer accounts in the water company. The City Clerk is responsible for making bank deposits and reconciling bank accounts as well as posting the transactions to the general ledger. This creates a weakness in internal controls that could provide opportunity for misappropriation of funds that may go undetected or create an opportunity for theft to occur. The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Management's Response: Management does not agree with this statement at all. Part of the content doesn't apply in this audit. Supervisors, assistants, and everyone that handles money has received Fraud Training.

2019-03 There was a failure to cross train which resulted in a catastrophic failure of the few internal controls operating with the loss of the City Clerk.

Management's Response:

STATE LAWS & REGULATIONS – NON COMPLIANCE

2019-04 KRS 65.140 requires that invoices be paid within 30 days. If there is a problem with the invoice that is in dispute then the City is required to document the issue and notify the vendor in writing. The City Clerk failed to pay numerous invoices in a timely fashion, resulting in significant late charges and cut off of credit card activity for nonpayment as well as threats of cutoff of utilities and other vital services. There was no documentation indicating an issue with the invoices and the problem was so widespread it appeared to be systemic. The City Clerk did not remain diligent in keeping a well-organized accounts payable system to make sure that invoices were paid within 30 days. She also just didn't pay the bills on time and there appears to be a lack of motivation or intentional disregard of the law. The City paid numerous amounts of late fees and penalties for invoices being paid after the due date. This does not use the City's money efficiently. Invoices should be paid within 30 days, cancelled upon payment and maintained as supporting documentation. And the governing body should inquire to ensure that all bills are paid according to the law.

Management's Response: Management feels that this issue has been resolved as cash flow has improved.

2019-05 There was a failure to comply with KRS 65.905, which requires that local government as defined in KRS 65.900 shall annually, after the close of the fiscal year, complete a uniform financial information report. The report shall be submitted to the DLG by May 1 immediately following the close of the fiscal year. The City of Manchester did not complete the required report timely for the fiscal years ending June 30, 2015 on time. The City was informed that Municipal Road Aid funding was suspended until this report is completed.

Management's Reponse: These reports will be filed as audited financial statements become available.

2019-06 There was failure to establish an ABC fund required by Kentucky law in order to segregate and track the collection and use of regulatory fees.

Management's Response: Management will make every effort to comply with Kentucky Law.

All findings and/or issues of non-compliance with the exception of 2019-04 are repeat findings but have been condensed from the prior year.