

CITY OF MANCHESTER, KENTUCKY

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
JUNE 30, 2020**

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Cloyd & Associates, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on Audit of Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information, as applicable, of the City of Manchester, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Manchester, Kentucky as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information

The financial statements referred to above do not include financial data for the City's legally separate discretely presented component units. Accounting principles generally accepted in the United States of America require financial data for the City's legally separate component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data of its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the actual amount of assets, liabilities, net position, change in net position of the aggregate discretely presented component units would have not been reported for the Manchester Tourism Commission. The actual amounts cannot be determined due to an audit not performed on the component unit at June 30, 2020.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Manchester, Kentucky as of June 30, 2020, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the City of Manchester, Kentucky as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information, if applicable, for the primary government of the City of Manchester, Kentucky, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18, effective July 1, 2019, the City was required to adopt Governmental Accounting Standards Board (GASB) Statement number 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." The statement did not have an effect on the City's financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 3, 2021, on our consideration of City of Manchester, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Manchester, Kentucky's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
August 3, 2021

City of Manchester, Kentucky
Statement of Net Position
June 30, 2020

	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash	\$ 1,252,709	\$ 419,261	\$ 1,671,970
Accounts receivable, net			
Taxes	23,921	-	23,921
Other	27,856	555,189	583,045
Inventory - material and supplies	-	47,259	47,259
Total Current Assets	1,304,486	1,021,709	2,326,195
Noncurrent Assets			
Restricted cash	178,033	237,874	415,907
Capital assets, net of accumulated depreciation	3,001,827	25,868,453	28,870,280
Total Noncurrent Assets	3,179,860	26,106,327	29,286,187
Total Assets	4,484,346	27,128,036	31,612,382
Deferred outflows			
Deferred pension outflows	542,529	523,940	1,066,469
Deferred OPEB outflows	245,442	226,318	471,760
Total deferred outflows	787,971	750,258	1,538,229
Liabilities			
Current liabilities			
Bonds and notes payable	75,597	323,297	398,894
Accounts payable	26,572	74,438	101,010
Accrued liabilities	45,458	17,717	63,175
Customer meter deposits	-	237,245	237,245
Total current liabilities	147,627	652,697	800,324
Non current liabilities			
Bonds and notes payable	1,344,620	3,837,774	5,182,394
Net pension liability	2,365,584	2,345,529	4,711,113
Net OPEB liability	622,158	561,351	1,183,509
Total non-current liabilities	4,332,362	6,744,654	11,077,016
Total liabilities	4,479,989	7,397,351	11,877,340
Deferred inflows			
Deferred pension inflows	163,882	129,310	293,192
Deferred OPEB inflows	211,584	230,346	441,930
Total deferred inflows	375,466	359,656	735,122
Net Position			
Invested in capital assets, net of related debt	1,581,610	21,511,062	23,092,672
Restricted for:			
Debt service	-	237,874	237,874
Other	178,033	-	178,033
Unrestricted	(1,342,781)	(1,627,649)	(2,970,430)
Total Net Position	\$ 416,862	\$ 20,121,287	\$ 20,538,149

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

City of Manchester, Kentucky
Statement of Activities
For the Year Ended June 30, 2020

Function/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Primary Government						
Governmental Activities:						
General government	\$ 915,715	\$ -	\$ -	\$ (915,715)	\$ -	\$ (915,715)
Public safety	1,328,010	255,823	-	(1,072,187)	-	(1,072,187)
Highways and streets	9,382	-	-	(9,382)	-	(9,382)
Interest on long-term debt	23,198	-	-	(23,198)	-	(23,198)
Total Governmental Activities	2,276,305	255,823	-	(2,020,482)	-	(2,020,482)
Business-Type Activities						
Water and sewer	2,896,703	3,585,648	-	-	688,945	688,945
Garbage	429,778	401,392	-	-	(28,386)	(28,386)
Other	285,470	121,752	-	-	(163,718)	(163,718)
Interest expense	134,319	-	-	-	(134,319)	(134,319)
Total Business-Type Activities	3,746,270	4,108,792	-	-	362,522	362,522
Total Primary Government	\$ 6,022,575	\$ 4,364,615	\$ -	(2,020,482)	362,522	(1,657,960)
General Revenues (Expenses):						
Taxes				987,271	-	987,271
Licenses and permits				23,057	-	23,057
Franchise Fees				72,602	-	72,602
Grant Income				40,000	-	40,000
Interest income				14,730	1,989	16,719
Intergovernmental programs				153,613	-	153,613
Miscellaneous income				28,677	-	28,677
Gain on sale of asset				2,750	-	2,750
Transfers in / (out)				569,739	(569,739)	-
Total General Revenues (Expenses)				1,892,439	(569,739)	1,324,689
Change in Net Position				(128,043)	(205,228)	(333,271)
Net Position at July 1, 2019				544,905	20,326,515	20,871,420
Net Position at June 30, 2020				\$ 416,862	\$ 20,121,287	\$ 20,538,149

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

City of Manchester, Kentucky
Balance Sheet - Governmental Funds
June 30, 2020

	General Fund	Manchester Tourism Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,252,709	\$ -	\$ -	\$ 1,252,709
Restricted cash	100,119	48,769	29,145	178,033
Accounts receivable, net				
Tax and license	23,921	-	-	23,921
Other	27,856	-	-	27,856
Total Assets	\$ 1,404,605	\$ 48,769	\$ 29,145	\$ 1,482,519
Liabilities and Fund Balances				
Liabilities				
Accounts payable	26,572	-	-	26,572
Accrued liabilities	45,458	-	-	45,458
Total Liabilities	72,030	-	-	72,030
Fund Balances				
Restricted	100,119	48,769	29,145	178,033
Unassigned	1,232,456	-	-	1,232,456
Total Fund Balances	1,332,575	48,769	29,145	1,410,489
Total Liabilities and Fund Balances	\$ 1,404,605	\$ 48,769	\$ 29,145	\$ 1,482,519

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, 2020

Total fund balance per fund financial statements	\$ 1,410,489
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.	3,001,827
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	787,971
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.	(1,420,217)
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	(2,365,584)
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	(622,158)
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	(375,466)
Net Position For Governmental Activities	<u>\$ 416,862</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, 2020

	General Fund	Manchester Tourism Fund	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 636,502	\$ 350,769	\$ -	\$ 987,271
Licenses and permits	23,057	-	-	23,057
Fines and forfeits	173,403	-	-	173,403
Fire Fees	82,421	-	-	82,421
Franchise Fees	72,602	-	-	72,602
Grant Income	40,000	-	-	40,000
Interest income	14,683	-	48	14,731
Intergovernmental programs	107,666	-	45,946	153,612
Miscellaneous income	15,203	-	13,474	28,677
Total revenue	<u>1,165,537</u>	<u>350,769</u>	<u>59,468</u>	<u>1,575,774</u>
Expenditures				
General government	383,974	327,293	53,138	764,405
Public safety	839,329	-	-	839,329
Highways and streets	-	-	9,382	9,382
Debt service	98,850	-	-	98,850
Capital outlay	122,385	-	-	122,385
Total Expenditures	<u>1,444,538</u>	<u>327,293</u>	<u>62,520</u>	<u>1,834,351</u>
Excess of Revenues				
Over (Under) Expenditures	(279,001)	23,476	(3,052)	(258,577)
Other Financing Sources (Uses)				
Proceeds of Sale of Asset	2,750	-	-	2,750
Operating transfers in (out)	543,836	25,293	610	569,739
Total Other Financing Sources (Uses)	<u>546,586</u>	<u>25,293</u>	<u>610</u>	<u>572,489</u>
Net Change in Fund Balance	267,585	48,769	(2,442)	313,912
Fund Balance July 1, 2019	<u>1,064,990</u>	<u>-</u>	<u>31,587</u>	<u>1,096,577</u>
Fund Balance June 30, 2020	<u>\$ 1,332,575</u>	<u>\$ 48,769</u>	<u>\$ 29,145</u>	<u>\$ 1,410,489</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, 2020

Net Changes in Total Fund Balances Per Fund Financial Statements \$ 313,912

Amounts reported for governmental activities in the statement of activities are different because:

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 capital outlay exceeds depreciation expense for the year. 33,351

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. (516,040)

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. (34,918)

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. 75,652

Changes in Net Position of Governmental Activities \$ (128,043)

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

City of Manchester, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2020

	Water & Sewer	Garbage	Other Proprietary Funds	Total Proprietary Funds
Current Assets				
Cash	\$ 353,375	\$ 39,385	\$ 26,501	\$ 419,261
Accounts receivable, net	520,515	34,674	-	555,189
Inventory	47,259	-	-	47,259
Total Current Assets	<u>921,149</u>	<u>74,059</u>	<u>26,501</u>	<u>1,021,709</u>
Noncurrent Assets				
Restricted cash	237,874	-	-	237,874
Capital assets, net of accumulated depreciation	25,364,571	50,936	452,946	25,868,453
Total Noncurrent Assets	<u>25,602,445</u>	<u>50,936</u>	<u>452,946</u>	<u>26,106,327</u>
Total Assets	<u>26,523,594</u>	<u>124,995</u>	<u>479,447</u>	<u>27,128,036</u>
Deferred Outflows				
Deferred pension outflows	363,387	104,175	56,378	523,940
Deferred OPEB outflows	156,968	44,998	24,352	226,318
Total Deferred Outflows	<u>520,355</u>	<u>149,173</u>	<u>80,730</u>	<u>750,258</u>
Current Liabilities				
Bonds and notes payable	256,200	67,097	-	323,297
Accounts payable	44,152	17,062	13,224	74,438
Compensated absences	12,037	2,837	2,843	17,717
Customer meter deposits	237,245	-	-	237,245
Total Current Liabilities	<u>549,634</u>	<u>86,996</u>	<u>16,067</u>	<u>652,697</u>
Noncurrent Liabilities				
Bonds and notes payable	3,837,774	-	-	3,837,774
Net pension liability	1,626,783	466,361	252,385	2,345,529
Net OPEB liability	389,335	111,613	60,403	561,351
Total Noncurrent Liabilities	<u>5,853,892</u>	<u>577,974</u>	<u>312,788</u>	<u>6,744,654</u>
Total Liabilities	<u>6,403,526</u>	<u>664,970</u>	<u>328,855</u>	<u>7,397,351</u>
Deferred Inflows				
Deferred pension inflows	89,685	25,711	13,914	129,310
Deferred OPEB inflows	159,760	45,800	24,786	230,346
Total Deferred Inflows	<u>249,445</u>	<u>71,511</u>	<u>38,700</u>	<u>359,656</u>
Net Position				
Invested in capital assets, net of related debt	21,270,597	(16,161)	256,626	21,511,062
Restricted for debt service	237,874	-	-	237,874
Unrestricted	(1,117,493)	(446,152)	(64,004)	(1,627,649)
Total Net Position	<u>\$ 20,390,978</u>	<u>\$ (462,313)</u>	<u>\$ 192,622</u>	<u>\$ 20,121,287</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, 2020

	Water & Sewer	Garbage	Other Proprietary Funds	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 3,583,662	\$ 401,392	\$ 118,484	\$ 4,103,538
Other Income	1,986	-	3,268	\$ 5,254
Total Operating Revenue	<u>3,585,648</u>	<u>401,392</u>	<u>121,752</u>	<u>4,108,792</u>
Operating Expense				
Chemicals	177,751	-	10,376	188,127
Cost of water purchased	70,072	-	-	70,072
Depreciation	811,551	27,844	19,280	858,675
Dues and subscriptions	-	-	456	456
Dumping expenses	-	121,805	-	121,805
Employee benefits	30,980	9,949	2,300	43,229
Equipment rental	9,042	-	19,644	28,686
Fuel	25,503	10,741	4,678	40,922
Insurance	74,165	18,879	169	93,213
Maintenance & Repairs	36,461	14,558	4,892	55,911
Office expense	8,684	8,215	568	17,467
Other operating expenses	5,070	2,390	7,699	15,159
Payroll tax	41,011	7,855	7,720	56,586
Pension expense	297,856	74,992	37,396	410,244
Processing fees	10,654	-	3,167	13,821
Professional fees	10,400	4,800	6,400	21,600
Purchase of resale items	-	-	10,334	10,334
Salaries	556,879	103,672	90,296	750,847
Supplies and materials	189,786	20,305	19,446	229,537
Taxes & Licenses	96,727	1,309	3,779	101,815
Utilities	413,996	2,464	36,870	453,330
Water Analysis & Testing	30,115	-	-	30,115
Total Operating Expenses	<u>2,896,703</u>	<u>429,778</u>	<u>285,470</u>	<u>3,611,951</u>
Operating Income (Loss)	<u>688,945</u>	<u>(28,386)</u>	<u>(163,718)</u>	<u>496,841</u>
Other Revenues (Expenses)				
Interest revenue	1,989	-	-	1,989
Interest expense	(132,448)	(1,871)	-	(134,319)
Total Other Revenues (Expenses)	<u>(130,459)</u>	<u>(1,871)</u>	<u>-</u>	<u>(132,330)</u>
Income (loss) before transfers	558,486	(30,257)	(163,718)	364,511
Transfers (to) / from governmental activities	<u>(709,110)</u>	<u>1,871</u>	<u>137,500</u>	<u>(569,739)</u>
Net Income (Loss)	(150,624)	(28,386)	(26,218)	(205,228)
Net Position at July 1, 2019	<u>20,541,602</u>	<u>(433,927)</u>	<u>218,840</u>	<u>20,326,515</u>
Net Position, June 30, 2020	<u>\$ 20,390,978</u>	<u>\$ (462,313)</u>	<u>\$ 192,622</u>	<u>\$ 20,121,287</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, 2020

	Water & Sewer	Garbage	Other Proprietary Funds	Total Proprietary Funds
Cash Flows From Operating Activities				
Receipts from customers	\$ 3,553,913	\$ 401,392	\$ 121,752	\$ 4,077,057
Payments for goods and services	<u>(2,046,083)</u>	<u>(352,274)</u>	<u>(248,149)</u>	<u>(2,646,506)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,507,830</u>	<u>49,118</u>	<u>(126,397)</u>	<u>1,430,551</u>
Cash Flows From Noncapital Financing Activities				
Transfers (to) from other funds	<u>(709,110)</u>	<u>1,871</u>	<u>137,500</u>	<u>(569,739)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(709,110)</u>	<u>1,871</u>	<u>137,500</u>	<u>(569,739)</u>
Cash Flows From Capital Financing Activities				
Acquisition and construction of capital assets	(142,170)	-	-	(142,170)
Principal and interest paid on debt	<u>(429,263)</u>	<u>(16,871)</u>	<u>-</u>	<u>(446,134)</u>
Net Cash Used by Capital Financing Activities	<u>(571,433)</u>	<u>(16,871)</u>	<u>-</u>	<u>(588,304)</u>
Cash Flows From Investing Activities				
Interest	<u>1,989</u>	<u>-</u>	<u>-</u>	<u>1,989</u>
Net Cash Provided by Investing Activities	<u>1,989</u>	<u>-</u>	<u>-</u>	<u>1,989</u>
Net Decrease in Cash	229,276	34,118	11,103	274,497
Cash - July 1, 2019	<u>361,973</u>	<u>5,267</u>	<u>15,398</u>	<u>382,638</u>
Cash - June 30, 2020	<u>\$ 591,249</u>	<u>\$ 39,385</u>	<u>\$ 26,501</u>	<u>\$ 657,135</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 688,945	\$ (28,386)	\$ (163,718)	\$ 496,841
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	811,551	27,844	19,280	858,675
Net change in pension expense	168,761	51,894	25,515	246,170
Net change in OPEB expense	20,826	7,112	3,016	30,954
(Increase) Decrease in:				
Accounts receivable	(29,748)	(2,024)	-	(31,772)
Increase (Decrease) in:				
Accounts payable	(95,657)	4,044	(5,285)	(96,898)
Compensated Absences	(56,848)	(11,366)	(5,205)	(73,419)
Customer meter deposits	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,507,830</u>	<u>\$ 49,118</u>	<u>\$ (126,397)</u>	<u>\$ 1,430,551</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, 2020

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.

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, 2020

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.

Manchester Tourism Fund – A special revenue fund used to account for restaurant and hotel taxes to be transferred to the Manchester Tourism Board.

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, 2020

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, 2020 totaled \$19,590 for the Water & Sewer Fund and \$8,869 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, 2020

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, 2020

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, 2020 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, 2020

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, 2020, the carrying amount of cash was \$2,087,877 and the bank balance was \$2,405,384.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

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, 2020, 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, 2020 consisted of the following:

First National Bank of Manchester	\$ 2,021,657
PNC Bank	311,001
Regions Bank	<u>72,726</u>
	<u><u>\$ 2,405,384</u></u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 1,430,742
Proprietary funds	<u>657,135</u>
	<u><u>\$ 2,087,877</u></u>

NOTE 4 – RECEIVABLES

Receivables at June 30, 2020 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	\$ 51,777	\$ -	\$ -
Customer charges	-	391,797	43,343
Unbilled customer charges	-	<u>148,308</u>	<u>-</u>
Gross receivables	51,777	540,105	43,343
Less: Allowance for uncollectibles	-	<u>(19,590)</u>	<u>(8,669)</u>
Net total receivables	<u>\$ 51,777</u>	<u>\$ 520,515</u>	<u>\$ 34,674</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2020 is as follows:

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020
<u>Governmental Activities:</u>				
Land	\$ 1,890,908	\$ -	\$ -	\$ 1,890,908
Land improvements	472,467	-	-	472,467
Buildings and improvements	957,633	-	-	957,633
Vehicles	691,200	122,384	-	813,584
Equipment	490,466	-	-	490,466
Total capital assets	<u>4,502,674</u>	<u>122,384</u>	<u>-</u>	<u>4,625,058</u>
Less accumulated depreciation:				
Land improvements	296,892	27,685	-	324,577
Buildings and improvements	172,149	19,153	-	191,302
Vehicles	587,696	39,724	-	627,420
Equipment	477,461	2,471	-	479,932
Total accumulated depreciation	<u>1,534,198</u>	<u>89,033</u>	<u>-</u>	<u>1,623,231</u>
Net capital assets-Governmental	<u>\$ 2,968,476</u>	<u>\$ 33,351</u>	<u>\$ -</u>	<u>\$ 3,001,827</u>

Depreciation Expense was charged to the Governmental Functions as follows:

General Government	\$ 17,807
Public Safety	71,226
	<u>\$ 89,033</u>

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020
<u>Business-Type Activities:</u>				
Land	\$ 209,600	\$ -	\$ -	\$ 209,600
Buildings and improvements	522,926	-	-	522,926
Utility Systems	40,231,294	64,305	-	40,295,599
Vehicles	757,227	70,852	-	828,079
Equipment	872,743	7,013	-	879,756
Construction in progress	16,000	-	-	16,000
Total capital assets	<u>42,609,790</u>	<u>142,170</u>	<u>-</u>	<u>42,751,960</u>
Less accumulated depreciation				
Buildings and improvements	290,724	12,489	-	303,213
Utility Systems	14,337,473	782,840	-	15,120,313
Vehicles	652,724	43,166	-	695,890
Equipment	743,910	20,181	-	764,091
Total accumulated depreciation	<u>16,024,831</u>	<u>858,676</u>	<u>-</u>	<u>16,883,507</u>
Net capital assets-Governmental	<u>\$ 26,584,959</u>	<u>\$ (716,506)</u>	<u>\$ -</u>	<u>\$ 25,868,453</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 6 – 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, 2020.

	<u>Annual Interest Rate</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2020</u>	<u>Current Portion</u>
Revenue bonds of 1996, payable semi-annually, with principal due in varying amounts each year through 2035.	4.50%	\$ 122,500	\$ -	\$ 5,000	\$ 117,500	\$ 5,000
Kentucky Infrastructure Authority note, payable semi-annually through 2022, secured by system revenue.	1.80%	189,101	-	65,957	123,144	61,021
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%	411,000	-	9,000	402,000	9,500
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%	839,000	-	19,000	820,000	20,500
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%	1,735,296	-	103,966	1,631,330	70,179
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%	1,085,000	-	85,000	1,000,000	90,000
Note payable, First National Bank of Manchester, secured by garbage truck.	4.00%	82,097	-	15,000	67,097	67,097
		<u>\$ 4,463,994</u>	<u>\$ -</u>	<u>\$ 302,923</u>	<u>\$ 4,161,071</u>	<u>\$ 323,297</u>

Future bond principal and interest payment amounts are as follows:

	<u>Principal</u>	<u>Interest and Fees</u>
2021	\$ 323,297	\$ 119,556
2022	260,007	109,785
2023	205,093	102,819
2024	212,811	96,462
2025	220,036	89,749
2026-2030	1,136,811	342,925
2031-2035	697,056	204,817
2036-2040	744,285	114,770
2041-2044	361,675	24,444
	<u>\$ 4,161,071</u>	<u>\$ 1,205,327</u>

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 7 – LONG-TERM DEBT (GOVERNMENTAL ACTIVITIES)

The following is a summary of long-term debt of the governmental activities for the year ended June 30, 2020.

	<u>Annual</u> <u>Interest Rate</u>	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 1, 2020</u>	<u>Current</u> <u>Portion</u>
First National Bank Note, payable as one principal amount in March 2025, secured by certificate of deposit	Variable	\$ 399,983	\$ -	\$ 82	\$ 399,901	\$ -
First National Bank Note, payable as one principal amount, secured by certificate of deposit	Variable	250,531	-	-	250,531	-
First National Bank Note, payable as one principal amount in March 2025, secured by certificate of deposit	Variable	250,169	-	104	250,065	-
First National Bank Note, payable monthly through March 2024, secured by certificate of deposit	Variable	100,186	-	20,466	79,720	20,597
EA Partners, Inc, payable in 10 installments of \$55,000	0%	495,000	-	55,000	440,000	55,000
		<u>\$ 1,495,869</u>	<u>\$ -</u>	<u>\$ 75,652</u>	<u>\$ 1,420,217</u>	<u>\$ 75,597</u>

Future bond principal and interest payment amounts are as follows:

	<u>Principal</u>	<u>Interest</u>
2021	\$ 75,597	\$ 24,821
2022	73,259	24,403
2023	76,563	23,976
2024	71,301	23,550
2025	955,497	23,413
2026-2029	165,000	-
	<u>\$ 1,417,217</u>	<u>\$ 120,163</u>

NOTE 8 – CAPITAL LEASES

The following is a summary of capital leases obligations of the business-type activities for the year ended June 30, 2020.

	<u>Annual</u> <u>Interest Rate</u>	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
Caterpillar Financial Services Lease, secured by equipment	3.200%	\$ 8,893	\$ -	\$ 8,893	\$ -	\$ -
		<u>\$ 8,893</u>	<u>\$ -</u>	<u>\$ 8,893</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 9 – 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 \$19,644 for the year ended June 30, 2020.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 10 – 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, 2020

NOTE 10 – 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, 2020, 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	\$ 2,743,309
City's proportionate share of the CERS net pension liability hazardous	<u>1,967,804</u>
	<u>\$ 4,711,113</u>

The net pension liability for each plan was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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, 2019, the City's proportion was 0.039006% of non-hazardous and 0.071238% of hazardous.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 10 – RETIREMENT PLANS (continued)

For the year ended June 30, 2020, the City recognized pension expense of \$762,210 related to CERS hazardous and non-hazardous. At June 30, 2020, 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	\$ 153,652	\$ 11,591
Changes of assumptions	468,667	-
Net difference between projected and actual earnings on pension plan investments	82,932	155,005
Changes in proportion and differences between District contributions and proportionate share of contributions	82,020	126,596
City contributions subsequent to the measurement date	279,198	-
Total	\$ 1,066,469	\$ 293,192

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	\$	326,286	
2020		115,983	
2021		46,899	
2022		4,911	
	\$	494,079	

Actuarial assumptions—The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	2.30%
Projected salary increases	3.3% to 11.55%, varies by service
Investment rate of return, net of investment expense & inflation	6.25%

For CERS, mortality rates for the period after service retirement are according to the RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 10 – 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%	6.25%	7.25%
	\$ 3,431,102	\$ 2,743,309	\$ 2,170,041
CERS Hazardous City's proportionate share of net pension liability	5.25%	6.25%	7.25%
	\$ 2,460,197	\$ 1,967,804	\$ 1,564,113

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 11 - 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 Public Pensions (KPPA) 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 Public Pensions Authority (Board). KPPA 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, 2020

NOTE 11 - 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability for CERS. The amount recognized by the City as its proportionate share of the net OPEB liability, and the total portion of the net OPEB liability that was associated with the City were as follows:

City's proportionate share of the CERS net OPEB liability non-hazardous	\$	656,551
City's proportionate share of the CERS net OPEB liability hazardous		526,958
	\$	1,183,509

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

The City's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2019, the City's proportion was 0.039035% of non-hazardous and 0.071224% of hazardous.

At June 30, 2020, 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	\$ -	\$ 296,128
Changes of assumptions	353,524	22,297
Net difference between projected and actual earning on plan investments	7,926	67,384
Changes in proportion and differences between contributions and proportionate share of contributions	33,181	56,121
District contribution subsequent to the measurement date	77,129	-
Total	\$ 471,760	\$ 441,930

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS – CERS (continued)

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, 2020. 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	\$ 17,842
2020	(10,183)
2021	(10,355)
2022	(7,446)
2023	(14,088)
Therafter	(3,068)
	\$ (27,298)

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

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions and OPEB-- The total OPEB liability, net OPEB liability, and sensitivity information shown in this report are based on an actuarial valuation performed as of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date to the measurement date at June 30, 2019, using generally accepted actuarial principles. 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. Single discount rates of 5.68% for the non-hazardous system and 5.69% for hazardous system were used to measure the total OPEB liability as of June 30, 2019. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system.

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 single discount rate of 5.68% established for the non-hazardous system, 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 (4.68%) or 1-percentage-point higher (6.68%) than the current rate. The following table presents the City's proportionate share of the collective net MIP OPEB liability for hazardous duty employees, calculated using the single discount rate of 5.69% established for the hazardous system, 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 (4.69%) or 1-percentage-point higher (6.69%) than the current rate.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS – CERS (continued)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS Non-Hazardous City's proportionate share of net OPEB liability	4.68%	5.68%	6.68%
	\$ 879,508	\$ 656,551	\$ 472,849
CERS Hazardous City's proportionate share of net OPEB liability	4.69%	5.69%	6.69%
	\$ 735,212	\$ 526,958	\$ 357,916

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	\$ 854,945	\$ 1,183,509	\$ 1,583,105

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, 2020.

<u>Pension</u>	<u>OPEB</u>
\$ -	\$ -

NOTE 12 – 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.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 13 – 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 14 – DEFICIT FUND BALANCES

The City had a deficit net position in the Garbage Fund of \$462,313 at June 30, 2020:

NOTE 15 – TRANSFER OF FUNDS

The following transfers were made during the year:

Transfers to/from other funds	Amount	Purpose
General Fund	\$ 543,836	Operating transfer
Tourism Fund	25,293	Operating transfer
MRAF Fund	610	Operating transfer
Water & Sewer Fund	(709,110)	Operating transfer
Garbage Fund	1,871	Operating transfer
Golf Course Fund	137,500	Operating transfer
	<u>\$ -</u>	

NOTE 16 – 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.

NOTE – 17 ALCOHOL REGULATORY FEES

The City recognized approximately \$103,354 in alcohol regulatory and license fee revenue during the year ended June 30, 2020. According to KRS 243.075 the license fee must be estimated to fully reimburse the City for the estimated costs of any additional policing, regulatory, or administrative expenses related to the sale of alcohol in the City. The City management believes that all revenue has been expended in accordance with Kentucky law.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 3, 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. However, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic.

COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could continue to be disrupted in the near future. The extent to which COVID-19 may impact the City will depend on future developments and governmental regulations, which are highly uncertain and cannot be predicted. As a result, the City has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

City of Manchester, Kentucky
Notes to the Financial Statements (continued)
Year Ended June 30, 2020

NOTE 18 – SUBSEQUENT EVENTS (continued)

In February 2021, the City experienced a catastrophic flood. The City expects to receive assistance from the Federal Management Administration (FEMA) to help mitigate the costs associated with this event. The amount of assistance has yet to be determined.

REQUIRED SUPPLEMENTARY INFORMATION

City of Manchester, Kentucky
 Required Supplemental Budgetary Comparison - General Fund
 Year Ended June 30, 2020

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues	\$ 1,271,115	\$ 1,165,537	\$ (105,578)
Expenditures			
General government	886,639	383,974	502,665
Public Safety	858,682	839,329	19,353
Debt service	-	98,850	(98,850)
Capital outlay	-	122,385	(122,385)
Total Expenditures	<u>1,745,321</u>	<u>1,444,538</u>	<u>300,783</u>
Other sources and uses			
Gain on Sale of Asset	-	2,750	2,750
Transfers in (out)	474,206	543,836	69,630
Total other sources and uses	<u>474,206</u>	<u>546,586</u>	<u>72,380</u>
Net Changes in Fund Balances	-	267,585	267,585
Fund Balance July 1, 2019	-	1,064,990	1,064,990
Fund Balance June 30, 2020	<u>\$ -</u>	<u>\$ 1,332,575</u>	<u>\$ 1,332,575</u>

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, 2020

	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
2020	0.071238%	\$ 1,967,804	\$ 398,064	494.34%	46.63%
2019	0.069568%	\$ 1,682,472	\$ 404,613	415.82%	49.26%
2018	0.081355%	\$ 1,820,138	\$ 465,053	391.38%	53.30%
2017	0.078790%	\$ 1,352,118	\$ 446,591	302.76%	55.50%
2016	0.078100%	\$ 1,198,924	\$ 409,661	292.66%	59.97%
2015	0.073580%	\$ 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, 2020

	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
2020	\$ 100,900	\$ 100,900	\$ -	\$ 398,064	25.35%
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, 2020

	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
2020	0.0399006%	\$ 2,743,309	\$ 850,016	322.74%	50.45%
2019	0.039930%	\$ 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, 2020

	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
2020	\$ 159,588	\$ 159,588	\$ -	\$ 850,016	18.77%
2019	\$ 143,303	\$ 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, 2020

	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
2020	0.071224%	\$ 526,958	\$ 398,064	132.38%	64.44%
2019	0.069572%	\$ 496,020	\$ 404,613	122.59%	64.24%
2018	0.081355%	\$ 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, 2020

	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
2020	\$ 42,478	\$ 42,478	\$ -	\$ 398,064	10.67%
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, 2020

	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
2020	0.039035%	\$ 656,551	\$ 850,016	77.24%	60.44%
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, 2020

	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
2020	\$ 51,805	\$ 51,805	\$ -	\$ 850,016	6.09%
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 Supplementary Information
Year Ended June 30, 2020

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 Balance Sheet - Other Governmental Funds
June 30, 2020

	LGEA Fund	Municipal Road Aid Fund	Total Other Governmental Funds
Assets			
Restricted cash	\$ 28,470	\$ 675	\$ 29,145
Total Assets	\$ 28,470	\$ 675	\$ 29,145
Liabilities and Fund Balances			
Liabilities			
Accounts payable	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Restricted	28,470	675	29,145
Total Fund Balances	28,470	675	29,145
Total Liabilities and Fund Balances	\$ 28,470	\$ 675	\$ 29,145

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

City of Manchester, Kentucky
Combining Statement of Revenues, Expenditures and Changes In
Fund Balances - Other Governmental Funds
For the Year Ended June 30, 2020

	LGEA Fund	Municipal Road Aid Fund	Total Other Governmental Funds
Revenue			
Interest income	\$ 48	\$ -	\$ 48
Intergovernmental programs	45,946	-	45,946
Miscellaneous income	13,474	-	13,474
Total revenue	<u>59,468</u>	<u>-</u>	<u>59,468</u>
Expenditures			
General government	53,138	-	53,138
Highways and streets	-	9,382	9,382
Total Expenditures	<u>53,138</u>	<u>9,382</u>	<u>62,520</u>
Excess of Revenues Over (Under) Expenditures	6,330	(9,382)	(3,052)
Other Financing Sources (Uses)			
Operating transfers in (out)	-	610	610
Total Other Financing Sources (Uses)	<u>-</u>	<u>610</u>	<u>610</u>
Net Change in Fund Balance	6,330	(8,772)	(2,442)
Fund Balance July 1, 2019	<u>22,140</u>	<u>9,447</u>	<u>31,587</u>
Fund Balance June 30, 2020	<u>\$ 28,470</u>	<u>\$ 675</u>	<u>\$ 29,145</u>

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

City of Manchester, Kentucky
Combining Statement of Net Position - Nonmajor Proprietary Funds
June 30, 2020

	Golf Course	Community Center	Total Proprietary Funds
Assets			
Current Assets			
Cash	\$ 2,274	\$ 24,227	\$ 26,501
Total Current Assets	2,274	24,227	26,501
Noncurrent Assets			
Capital assets, net of accumulated depreciation	362,946	90,000	452,946
Total Noncurrent Assets	362,946	90,000	452,946
Total Assets	365,220	114,227	479,447
Deferred Outflows			
Deferred pension outflows	56,378	-	56,378
Deferred OPEB outflows	24,352	-	24,352
Total Deferred Outflows	80,730	-	80,730
Liabilities			
Current Liabilities			
Accounts payable	11,685	1,539	13,224
Compensated absences	2,843	-	2,843
Total Current Liabilities	14,528	1,539	16,067
Noncurrent Liabilities			
Net pension liability	252,385	-	252,385
Net OPEB liability	60,403	-	60,403
Total Noncurrent Liabilities	312,788	-	312,788
Total Liabilities	327,316	1,539	328,855
Deferred Inflows			
Deferred pension inflows	13,914	-	13,914
Deferred OPEB inflows	24,786	-	24,786
Total Deferred Inflows	38,700	-	38,700
Net Position			
Invested in capital assets, net of related debt	166,626	90,000	256,626
Unrestricted	(86,692)	22,688	(64,004)
Total Net Position	\$ 79,934	\$ 112,688	\$ 192,622

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, 2020

	Golf Course	Community Center	Total Other Proprietary Funds
Operating Revenues			
Charges for services	\$ 66,112	\$ 52,372	\$ 118,484
Other income	2,829	439	3,268
Total Operating Revenues	<u>68,941</u>	<u>52,811</u>	<u>121,752</u>
Operating Expenses			
Chemicals	10,376	-	10,376
Depreciation	13,280	6,000	19,280
Dues and subscriptions	456	-	456
Employee benefits	2,300	-	2,300
Equipment rental	19,644	-	19,644
Fuel	4,678	-	4,678
Insurance	169	-	169
Maintenance	4,162	730	4,892
Office Expense	250	318	568
Other operating expenses	2,349	5,350	7,699
Payroll Taxes	7,720	-	7,720
Pension expense	37,396	-	37,396
Processing fees	3,167	-	3,167
Professional fees	5,600	800	6,400
Purchase of resale items	10,334	-	10,334
Salaries	90,296	-	90,296
Supplies and materials	12,971	6,475	19,446
Taxes & Licenses	2,141	1,638	3,779
Utilities	12,157	24,713	36,870
Total Operating Expenses	<u>239,446</u>	<u>46,024</u>	<u>285,470</u>
Operating income/(loss)	(170,505)	6,787	(163,718)
Transfers (to)/from governmental activities	<u>137,500</u>	<u>-</u>	<u>137,500</u>
Net gain/(loss)	(33,005)	6,787	(26,218)
Net Position at July 1, 2019	<u>112,939</u>	<u>105,901</u>	<u>218,840</u>
Net Position at June 30, 2020	<u>\$ 79,934</u>	<u>\$ 112,688</u>	<u>\$ 192,622</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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 3, 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 deficiency described in the accompanying comments and recommendations as item 2020-01 to be a material weakness.

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.

1700 Forest Drive, Corbin, KY 40701
Ph. 606.528.8776 Fax: 606.523.5457

2410 Greatstone Point, Lexington, KY 40504
Ph. 859.223.3318 Fax: 859.223.5875

1301 West 5th Street, London, KY 40741
Ph. 606.864.8110 Fax: 606.657.5889



www.cloydcpa.com

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 findings and recommendations as items 2020-02 and 2020-03.

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
August 3, 2021

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, 2020, 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 August 3, 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
August 3, 2021



City of Manchester
Findings and Recommendations
Year Ended June 30, 2020

Prior 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.

This has been corrected.

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.

This has been corrected.

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.

This has been corrected.

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.

This has been corrected

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.

This has not been corrected.

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.

This has not been corrected

Current Year Comments

INTERNAL CONTROL – MATERIAL WEAKNESSES

2020-01 There were several instances where it was noted that sales tax was paid on purchases made through the accounts payable system. Because the City is exempt from sales tax in the Commonwealth of Kentucky care should be taken to ensure that the City does not pay sales on purchases and that the City provides sales tax exemption certificates to vendors as necessary to avoid being charged sales tax.

Management's Response: Management will make every effort to avoid this situation in the future.

STATE LAWS & REGULATIONS – NON COMPLIANCE

2020-02 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.

All years through June 30, 2019 have been filed and the uniform financial report for June 30, 2020 will be filed subsequent to the completion of the June 30, 2020 audit. An extension has been filed with the Department of Local Government for the uniform financial information report required for June 30, 2020.

2020-03 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 2020-01 are repeat findings but have been condensed from the prior year.