Financial Statements

City of Manchester

June 30, 2004

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City of Manchester

List of Officials

Name	Title	Term Expires
Milt L. Kramer	Mayor	January 2006
Darrell R. Hanson	Council Member	January 2008
Tony C. Broghammer	Council Member	January 2006
Daniel J. Stelken	Council Member	January 2008
Jeff L. Ogden	Council Member	January 2008
Ron R. Struble	Council Member	January 2006
David J. Heiar	City Manager	October 2005
Erin Rempe	City Clerk	January 2005
Julie Swanson	Treasurer-Deputy City Clerk	Indefinite
James T. Peters	Attorney	January 2005

Honkamp Krueger & Co., P.C.
Certified Public Accountants
& Business Consultants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Manchester
Manchester, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate fund information of the City of Manchester, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Manchester's management. Our responsibility is to express an opinion 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manchester as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

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As described in Note 19, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2004 on our consideration of the City of Manchester's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Manchester's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Dubuque, Iowa
August 18, 2004

City of Manchester
Management's Discussion and Analysis

The City of Manchester provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operation.

2004 FINANCIAL HIGHLIGHTS

- The City's overall revenues decreased by approximately $7,000, or 0.43% from fiscal 2003 to fiscal 2004. Property tax increased by $103,868, or approximately 6.43%.

- Disbursements increased 10.64%, or approximately $530,000 from fiscal 2003 to fiscal 2004. Public safety, public works, and capital projects expenditures increased approximately $73,000, $21,000 and $952,000, respectively.

- The City's total cash basis net assets decreased by 5.67%, or approximately $166,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately $292,000 and the assets of the business type activities increased approximately $126,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

- Business Type Activities include the water utility and sewer utility. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment (TIF), 3) the Debt Service Fund, and 4) Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Governmental funds are further broken down into the following activities:

Public Safety - This category includes police and communications center operations, disaster control, fire protection, rescue services, and animal control services.

Public Works - This category includes roadway maintenance, traffic safety, snow and ice, street cleaning, storm/street drainage, airport, solid waste collection, traffic safety, snow removal, compost facility, local access cablevision, local option tax, and equipment reserve.

Culture and Recreation - This category includes library, parks, recreation program, family aquatic center, sports complex, cemetery, and special events.

Community and Economic Development - This category includes community beautification, economic development, building and housing, planning and zoning, and revolving loan fund.

General Government - This category includes legislative, administration, tax revenue, insurance, employee benefits, health fund, and other general government.

Debt Service - This category includes general and TIF debt service.

Capital Projects - This category includes the downtown incentive program, 2001 housing grant project, 2002 housing grant project, sidewalk construction, street improvement fund, Quaker Mill Drive project, Family Aquatic Center project, 2004 Street project, and FEMA Property Acquisition.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary Funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer utilities, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate cost internally among the City's various functions.

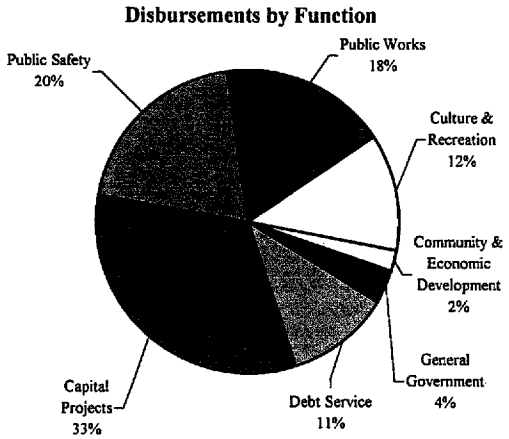
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

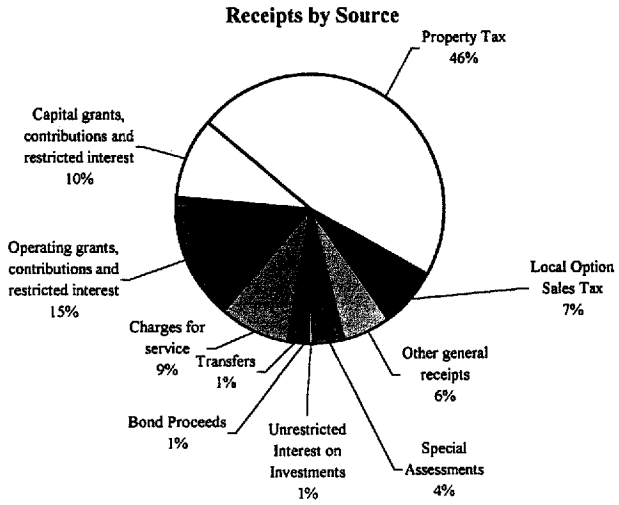
Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from $1,829,006 to $1,537,129.

City of Manchester Change in Cash Basis Net Assets of Governmental Activities		
		Year ended June 30, 2004
Receipts and transfers:		
Program Receipts:		
Charges for service	$	387,586
Operating grants, contributions and restricted interest	$	663,722
Capital grants, contributions and restricted interest	$	432,266
General Receipts:		
Property tax	$	2,094,249
Local Option Sales Tax	$	323,176
Franchise Tax	$	22,799
Other City Tax	$	3,815
Special Assessments	$	161,648
Unrestricted Interest on Investments	$	24,830
Bond Proceeds	$	47,500
Anticipatory Notes Issued	$	55,000
Miscellaneous	$	202,457
Sale of Assets	$	3,037
Interfund Loans	$	(25,000)
Transfers	$	59,130
Total receipts and transfers	$	4,456,215
Disbursements		
Public Safety	$	950,095
Public Works	$	844,865
Culture and Recreation	$	587,519
Community and Economic Development	$	113,872
General Government	$	168,035
Debt Service	$	523,317
Capital Projects	$	1,560,389
Total disbursements	$	4,748,092
Increase/decrease in cash basis net assets	$	(291,877)
Cash basis net assets beginning of year	$	1,829,006
Cash basis net assets end of year	$	1,537,129





The City's receipts and transfers for governmental activities totaled $4,456,215 for Fiscal 2004. The total cost of all programs and services was $4,748,092. The resulting deficit of $291,877 for Fiscal 2004 came from cash balances on hand.

The City increased property tax rates for 2004 by an average of 7 percent. However, due to Residential Rollback, this increase only resulted in $51,514 in additional property tax revenues.

The cost of all governmental activities this year was $4,748,092 compared to $4,290,365 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only $2,094,249 because some of the cost was paid by those directly benefiting from the programs ($387,586) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest ($1,095,988). The City paid for the remaining "public benefit" portion of governmental activities with approximately $1,170,269 in tax (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

City of Manchester Change in Cash Basis Net Assets of Business Activities		
		Year ended June 30, 2004
Receipts		
Program Receipts:		
Charges for service		
Water	$	505,307
Sewer	$	401,516
General Receipts:		
Special Assessments	$	1,759
Unrestricted Interest on Investments	$	12,157
Miscellaneous	$	4,317
Interfund Loans	$	25,000
Total receipts	$	950,056
Disbursements and transfers		
Water	$	385,601
Sewer	$	379,442
Transfers	$	59,130
Total disbursements and transfers	$	824,173
Increase/decrease in cash basis net assets	$	125,883
Cash basis net assets beginning of year	$	1,100,166
Cash basis net assets end of year	$	1,226,049

Total business type activities receipts for the fiscal year were $950,056 compared to $912,621 last year. The cash balance increased by $125,883 from the prior year. Total disbursements and transfers for the fiscal year increased by $206,721, or 33.5%. This increase is primarily due to water and sewer improvements done with the Quaker Mill Drive Reconstruction Project and the 2004 Street Projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of $1,537,129, a decrease of $291,877 from last year's total of $1,829,006. The following is the major reason for the change in fund balances of the major funds from the prior year.

- The Capital Project Funds, specifically for the 2004 Street Projects, incurred significant expenses ($421,272) as of June 30th, 2004. The off-setting revenue transactions occurred in Fiscal 2005, when the project was completed.

- The General Fund cash balance increased by $51,908 from the prior year to $413,969. This increase was due to an increase in contributions from the Delaware County Townships and Delaware County for public safety, and a refund received from the Delaware County Solid Waste Commission. The City intends to use this money to offset revenue reductions incurred as a result of State budget cuts.

- The Road Use Tax Fund cash balance decreased by $12,527 from the prior year to $225,243. The decrease is attributable to the construction of a new shop building and increased employee costs.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility cash balance increased by $86,399 to $798,923, due primarily to water sales revenues exceeding the operating expenses incurred. Additionally, the Water Utility had no major capital expenditures incurred during Fiscal 2004.

The Sewer Utility cash balance increased by $39,484 to $427,126, due primarily to increased sewer rental receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Manchester amended its budget one time. The amendment was approved on April 26th, 2004. The amendment was needed, in large part, due to the following items: an increase in disbursements for the City's two CDBG housing grant programs and a FEMA property acquisition grant, disbursements related to the City's Downtown Incentive Program and expenses incurred as a result of the 2004 Street Improvement Project. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately $1,340,233 in bonds and other long-term debt, compared to approximately $1,720,508 last year, as shown below.

City of Manchester
Outstanding Debt at Year-End

	June 30,	
	2004	2003
General obligation bonds	$ 935,000	$ 1,291,200
Urban renewal tax increment revenue bonds	$ 256,855	$ 323,301
Small Business Administration	$ 25,077	$ 37,706
Urban renewal tax increment revenue anticipation note	$ 123,301	$ 68,301
Total	$ 1,340,233	$ 1,720,508

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $935,000 is significantly below its constitutional debt limit of $9,895,167.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Manchester's elected and appointed officials and department heads considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities.

A major factor in setting the fiscal year 2005 budget was how to offset the reduction of State funding to cities which resulted in a loss of $74,500 in Fiscal 2004 and an additional loss of $20,000 in Fiscal 2005 for the City of Manchester. These cuts coupled with decreased taxable valuation and residential rollback, made balancing the General Fund budget a challenging process. The City will work to recoup these losses by increasing charges for services, reviewing our contract with Delaware County for dispatching services, implementing gas and electric franchise fees, and utilizing the debt service levy for capital expenditures that were previously budgeted from the General Fund.

The City's property tax rate will increase from $14.19495 in Fiscal 2004 to $15.24671 in Fiscal 2005. While this appears to be an approximate 7% increase, with residential rollback the net effect to property owners will be an increase of only approximately 1% in their City taxes.

CONTACTING THE CITY' S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Erin Rempe, City Clerk, 208 East Main Street, Manchester, Iowa.

City of Manchester
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2004

	Disbursements	Program Receipts: Charges for Service	Program Receipts: Operating Grants, Contributions and Restricted Interest
Functions / Programs:			
Primary Government:			
Governmental Activities:			
Public Safety	$ 950,095	$ 2,317	$ 185,680
Public Works	844,865	243,419	437,842
Culture and Recreation	587,519	107,086	23,669
Community and Economic Development	113,872	32,107	16,531
General Government	168,035	2,657	-
Debt Service	523,317	-	-
Capital Projects	1,560,389	-	-
Total Governmental Activities	4,748,092	387,586	663,722
Business Type Activities:			
Water Utility	385,601	505,307	-
Sewer Utility	379,442	401,516	-
Total Business Type Activities	765,043	906,823	-
Total	$ 5,513,135	$ 1,294,409	$ 663,722

General Receipts:
- Property Tax Levied for:
  - General Purposes
  - Insurance
  - Employee Benefits
  - Tax Increment Financing
  - Debt Service
- Local Option Sales Tax
- Franchise Tax
- Other City Tax
- Special Assessments
- Unrestricted Interest on Investments
- Bond Proceeds
- Anticipatory Notes Issued
- Miscellaneous
- Sale of Assets

Interfund Loans

Transfers

Total General Receipts and Transfers

Change in Cash Basis Net Assets

Cash Basis Net Assets, Beginning of Year

Cash Basis Net Assets, End of Year

Cash Basis Net Assets
- Restricted:
  - Streets
  - Debt Service
  - Other Purposes
- Unrestricted

Total Cash Basis Net Assets

Program Receipts	Net (Disbursements) Receipts and Change in Cash Basis Net Assets		
Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
$ 20,100	$ (741,998)	$ -	$ (741,998)
158,055	(5,549)	-	(5,549)
-	(456,764)	-	(456,764)
254,111	188,877	-	188,877
-	(165,378)	-	(165,378)
-	(523,317)	-	(523,317)
-	(1,560,389)	-	(1,560,389)
432,266	(3,264,518)	-	(3,264,518)
-	-	119,706	119,706
-	-	22,074	22,074
-	-	141,780	141,780
$ 432,266	(3,264,518)	141,780	(3,122,738)
	982,607	-	982,607
	108,280	-	108,280
	340,094	-	340,094
	358,684	-	358,684
	304,584	-	304,584
	323,176	-	323,176
	22,799	-	22,799
	3,815	-	3,815
	161,648	1,759	163,407
	24,830	12,157	36,987
	47,500	-	47,500
	55,000	-	55,000
	202,457	4,317	206,774
	3,037	-	3,037
	(25,000)	25,000	-
	59,130	(59,130)	-
	2,972,641	(15,897)	2,956,744
	(291,877)	125,883	(165,994)
	1,829,006	1,100,166	2,929,172
	$ 1,537,129	$ 1,226,049	$ 2,763,178
	$ 225,243	$ -	$ 225,243
	26,759	-	26,759
	1,327,626	-	1,327,626
	(42,499)	1,226,049	1,183,550
	$ 1,537,129	$ 1,226,049	$ 2,763,178

See Notes to Financial Statements

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds
As of and for the Year Ended June 30, 2004

	General	Special Revenue: Road Use Tax	Special Revenue: Local Option
Receipts:			
Property Tax	$ 1,090,887	$ -	$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	2,408	-	323,176
Licenses and Permits	50,394	-	-
Use of Money and Property	14,998	-	3,681
Intergovernmental	226,192	437,842	-
Charges for Service	385,366	-	-
Special Assessments	-	-	-
Miscellaneous	113,821	-	-
Total Receipts	1,884,066	437,842	326,857
Disbursements:			
Operating:			
Public Safety	900,510	-	-
Public Works	421,172	375,369	-
Culture and Recreation	552,675	-	-
Community and Economic Development	96,901	-	-
General Government	143,223	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	2,114,481	375,369	-
Excess (Deficiency) of Receipts over (under) Disbursements	(230,415)	62,473	326,857
Other Financing Sources (Uses)			
Sale of Capital Assets	3,037	-	-
Bond Proceeds	-	-	-
Anticipatory Notes	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	305,829	-	-
Operating Transfers Out	(26,543)	(75,000)	(160,000)
Total Other Financing Sources (Uses)	282,323	(75,000)	(160,000)
Net Change in Cash Balances	51,908	(12,527)	166,857
Cash Balances, Beginning of Year	362,061	237,770	343,301
Cash Balances, End of Year	$ 413,969	$ 225,243	$ 510,158
Cash Basis Fund Balances			
Reserved:			
Debt Service	$ -	$ -	$ -
Unreserved:			
General Fund	413,969	-	-
Special Revenue Funds	-	225,243	510,158
Capital Project Funds	-	-	-
Total Cash Basis Fund Balances	$ 413,969	$ 225,243	$ 510,158

Street Equipment Reserve	Capital Projects Quaker Mill Drive Project	Other Nonmajor Governmental Funds	Total
$ -	$ -	$ 644,678	$ 1,735,565
-	-	358,684	358,684
-	-	1,407	326,991
-	-	-	50,394
4,876	-	10,125	33,680
-	148,960	265,976	1,078,970
-	-	2,220	387,586
-	21,146	140,502	161,648
-	-	69,209	183,030
4,876	170,106	1,492,801	4,316,548
-	-	49,585	950,095
46,359	-	1,965	844,865
-	-	34,844	587,519
-	-	16,971	113,872
-	-	24,812	168,035
-	-	523,317	523,317
-	589,561	970,828	1,560,389
46,359	589,561	1,622,322	4,748,092
(41,483)	(419,455)	(129,521)	(431,544)
-	-	-	3,037
-	-	47,500	47,500
-	-	55,000	55,000
5,000	-	(30,000)	(25,000)
1,500	396,974	251,373	955,676
-	-	(635,003)	(896,546)
6,500	396,974	(311,130)	139,667
(34,983)	(22,481)	(440,651)	(291,877)
362,124	22,481	501,269	1,829,006
$ 327,141	$ -	$ 60,618	$ 1,537,129
$ -	$ -	$ 26,759	$ 26,759
-	-	-	413,969
327,141	-	490,327	1,552,869
-	-	(456,468)	(456,468)
$ 327,141	$ -	$ 60,618	$ 1,537,129

See Notes to Financial Statements

City of Manchester
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statements of Activities and Net Assets - Governmental Funds
As of and for the Year Ended June 30, 2004

Total Governmental Funds Cash Balance	$	1,537,129
Amounts Reported for Governmental Activities in the Statement of Activities and Net Assets are different because:		
None		-
Cash Basis Net Assets of Governmental Activities	$	1,537,129
Net Change in Cash Balances	$	(291,877)
Amounts Reported for Governmental Activities in the Statement of Activities and Net Assets are different because:		
None		-
Change in Cash Balance of Governmental Activities	$	(291,877)

See Notes to Financial Statements

Exhibit D

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds
As of and for the Year Ended June 30, 2004

	Enterprise Funds			Internal Service Fund
	Water Utility	Sewer Utility	Total	Employee Health
Operating Receipts:				
Charges for Service	$ 505,307	$ 401,516	$ 906,823	$ 1,449,671
Special Assessments	1,759	-	1,759	-
Miscellaneous	4,222	95	4,317	8,147
Total Operating Receipts	511,288	401,611	912,899	1,457,818
Operating Disbursements:				
Governmental Activities:				
Public Safety	-	-	-	564,682
Public Works	-	-	-	231,634
Culture and Recreation	-	-	-	257,206
Community and Economic Development	-	-	-	33,445
General Government	-	-	-	77,433
Business Type Activities	385,601	379,442	765,043	293,418
Total Operating Disbursements	385,601	379,442	765,043	1,457,818
Excess of Operating Receipts Over Operating Disbursements	125,687	22,169	147,856	-
Non-Operating Receipts:				
Investment Earnings	8,262	3,895	12,157	-
Excess of Receipts Over Disbursements	133,949	26,064	160,013	-
Other Financing Sources (Uses)				
Interfund Loans	-	25,000	25,000	-
Operating Transfers Out	(47,550)	(11,580)	(59,130)	-
Total Other Financing Sources (Uses)	(47,550)	13,420	(34,130)	-
Net Change in Cash Balances	86,399	39,484	125,883	-
Cash Balances Beginning of Year	712,524	387,642	1,100,166	-
Cash Balances End of Year	$ 798,923	$ 427,126	$ 1,226,049	$ -
Cash Basis Fund Balances				
Unreserved	$ 798,923	$ 427,126	$ 1,226,049	$ -
Total Cash Basis Fund Balance	$ 798,923	$ 427,126	$ 1,226,049	$ -

See Notes to Financial Statements

City of Manchester
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statements of Activities and Net Assets - Proprietary Funds
As of and for the Year Ended June 30, 2004

Total Enterprise Funds Cash Balance	$	1,226,049
Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:		
None		-
Cash Basis Net Assets of Business Type Activities	$	1,226,049
Net Change in Cash Balances	$	125,883
Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:		
None		-
Change in Cash Balance of Governmental Activities	$	125,883

See Notes to Financial Statements

City of Manchester

Notes to Financial Statements

NOTE 1. Nature of Organization and Significant Accounting Policies

The City of Manchester is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1865, and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor/Council form of government, with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

The significant accounting policies of the City of Manchester are as follows:

Reporting Entity

For financial reporting purposes, the City of Manchester has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Manchester has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions:

Delaware County Economic Development Commission
Delaware County Solid Waste Commission
Delaware County Communications Commission
Regional Planning Affiliation Policy Board
Delaware County E911 Board
Manchester Area Chamber of Commerce
Delaware County Emergency Management
Eastern Iowa Clandestine Lab Enforcement

NOTE 1. Significant Accounting Policies (Continued)

Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted Net Assets results when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

NOTE 1. Significant Accounting Policies (Continued)

***Basis of Presentation* (continued)**

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Tax Fund is used to account for projects financed by local options tax.

The Street Equipment Reserve Fund is used to account for capital asset purchases of the Street Department as well as to account for reserves designated for future purchases.

Capital Projects:

The Quaker Mill Drive Project Fund is used to account for resources used in the acquisition or construction of major capital facilities and capital assets as it relates to the Quaker Mill Drive Street Project.

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the operation and maintenance of the City's water system.

The Sewer Utility Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City of Manchester maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

NOTE 1. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

NOTE 2. Deposits and Investments

The City's deposits in banks at June 30, 2004 were entirely covered by Federal Depository Insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities, certificates of deposit, or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agents in the City's name. The City's investments consist of certificates of deposits held within the State of Iowa.

NOTE 3. Notes Receivable

The City has loaned money to the following Manchester area businesses as part of its Downtown Incentive Program:

Note Receivable, Manchester Area Chamber of Commerce, due in annual installments of $1,630, beginning January 20, 2005 through 2009. The note bears no interest and is secured by a real estate mortgage.	$ 8,150
Note Receivable, Tyler's Gold and Diamonds, due in annual installments of $2,000, beginning September 5, 2003 through 2007. The note bears no interest and is secured by a security agreement dated September 5, 2002.	$ 8,000

NOTE 4. Bond and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increments financing revenue bonds, and a Small Business Administration loan are as follows:

Y/E 6/30	General Obligation Bonds		Small Business Administration Loan	
	Principal	Interest	Principal	Interest
2005	$ 328,000	$ 43,593	$ 13,144	$ 764
2006	295,000	28,080	11,933	228
2007	312,000	14,430	-----	-----
Total	$ 935,000	$ 86,103	$ 25,077	$ 992

NOTE 4. Bond and Notes Payable (Continued)

Y/E 6/30	Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2005	$ 75,333	$ 13,855	$ 416,477	$ 58,212
2006	60,105	9,229	367,038	37,537
2007	14,429	7,073	326,429	21,503
2008	15,291	6,210	15,291	6,210
2009	16,239	5,263	16,239	5,263
2010	17,227	4,274	17,227	4,274
2011	18,277	3,225	18,277	3,225
2012	19,385	2,117	19,385	2,117
2013	20,569	931	20,569	931
Total	$ 256,855	$ 52,177	$ 1,216,932	$ 139,272

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City; however, the debt is subject to the constitutional debt limitation of the City.

NOTE 5. Anticipation Project Notes

The City has entered into an urban renewal tax increment revenue bond anticipation (project) note with Community Savings Bank which permits the City to borrow up to $300,000 at a rate of 2.99% which expires July 1, 2004. This note was entered into by the City for the purpose of making economic development grants for downtown building improvements in the Manchester Urban Renewal Area (the "Project"). As of June 30, 2004, the City had $123,301 outstanding under this agreement.

NOTE 6. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees' Retirement Systems (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case, the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were $87,010, $86,236 and $82,818, respectively, equal to the required contribution for each year.

NOTE 7. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2004, relating to the General Fund, Special Revenue Funds, and Enterprise Funds, is as follows:

Type of Benefit	Amount
Vacation	$ 76,557

This liability has been computed based on rate of pay as of June 30, 2004.

Sick leave is payable when used and is accumulated at the rate of 12 days each year up to a maximum accumulation of 150 days. The approximate liability for sick leave is $401,803 at June 30, 2004. If sick leave is paid upon termination, retirement or death, the total accumulated hours are paid at one-fourth of the then effective hourly rate for that employee.

NOTE 8. Lease Agreements

1. The City of Manchester is a party to several operating leases. The leases are with various local companies and individuals for hangars at the municipal airport. The leases run for one year and are automatically renewable unless 30 days written notice by either party is given. The City charges $200 per year, per hangar.

2. The City of Manchester has entered into a twenty-year lease agreement dated September, 2003 to lease a parking lot on West Main Street to Jer Van Inc. No lease payments are required, but Jer Van Inc. has agreed to surface and landscape the area.

3. The City of Manchester has entered into a lease agreement with Fareway Stores, Inc. of Boone, Iowa for an easement for purposes of constructing loading docks for $1 and other valuable consideration received.

4. The City of Manchester has entered into a ten-year lease agreement commencing April 16, 2001 to lease a parking lot to the Delaware County Memorial Hospital for $1. The Delaware County Memorial Hospital agrees to pay 100 percent of required maintenance.

5. The City of Manchester is a party to an operating lease with Mediacom Iowa, LLC. that runs from May 1, 2001 through May 1, 2005. The lease covers storage space in a building and antenna and equipment space on the water tower on Williams Street. The $275 monthly rent may be increased by the lessor in an amount not to exceed the percent of increase in the consumer price index (CPI-U) from the time the last increase was implemented.

6. The City of Manchester has entered into a three-year lease agreement with William Blakesley dated June 1, 2004 to lease a driveway adjacent to his retail establishment. A $150 lease payment was paid at the signing of the lease. William Blakesley has agreed to pay 100 percent of required maintenance.

7. The City of Manchester has entered into a three-year lease agreement with the East End Youth Center, dated January 1, 2004, to construct a handicapped ramp on the property. A $1 lease payment was paid at the signing of the lease. East End Youth Center agrees to pay 100 percent of the required maintenance.

8. The City of Manchester has entered into a three-year lease agreement with Delaware County, commencing January 1, 2004, to lease four offices and jointly occupy the conference room, kitchen and restrooms. Delaware County will pay $500 per month. The City of Manchester will reimburse 25% of the gas, electric, light and water used on the premises to the Delaware County.

NOTE 8. Lease Agreements (Continued)

9. The City of Manchester has entered into a six-year lease agreement commencing October 1, 2000 to lease a right of way to Regional Medical Center of Northeast Iowa and Delaware County. The right of way consists of underground space for the purpose of running a telecommunications cable. Regional Medical Center will pay $25 per year.

10. The City of Manchester has entered into a three-year lease agreement commencing January 1, 2003 to lease a right of way to James Hill. The right of way consists of air space for the purpose of running a net-connect T-100 internet line. A $25 lease payment was paid at the signing of the lease.

11. The City of Manchester has entered into a five-year lease agreement commencing March 4, 2002 to lease the transmitter building located 20 feet north of the Grant Street water tower to the Delaware County E-911 Board. The Delaware County E-911 Board will pay $25 per year, payable on the first Monday of March each year, beginning March 2002. The lease shall automatically renew for successive one-year terms, unless a party provides written notification of termination of the lease at least 90 days prior to the expiration of the current lease term. The Delaware County E-911 Board agrees to pay 100% of the required maintenance.

12. The City of Manchester has entered into a fifteen-year well agreement commencing April 1, 2002 where the City is entitled to the use of water provided by said well owned by M. Ruth Francois. The City is responsible for all electrical utilities serving the pump house and all connection costs, as well as repairs, maintenance and/or replacement of the well facility.

13. The City of Manchester has entered into an agreement for the right to enter the premises being a building commonly known as 1201 East Main Street, Manchester, Iowa owned by Schultz Bros. Co., commencing on March 18, 2002. The City's sole use of the premises is for the training of police K-9 units. Consideration for the agreement is $10 and can be canceled by either party at any time by giving 2 days written notification.

NOTE 9. Construction in Progress

The City has entered into various construction contracts totaling approximately $1,733,087. The unpaid contract balances as of June 30, 2004 totaled approximately $1,263,534, which will be paid as work on the projects progress.

NOTE 10. Contingencies

The City participates in state and federal assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

NOTE 11. Related Party Transactions

The City had business transactions between the City and City officials, totaling $7,373 during the year ended June 30, 2004.

NOTE 12. Industrial Development Revenue Bonds

The City has issued a total of $1,089,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which $1,056,127 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the revenue of the businesses occupying properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 13. Risk Management

The City of Manchester is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 14. Interfund Loans

The City has the following interfund loans at June 30, 2004:

Special Revenue Fund, Tax Increment Financing to Enterprise Fund, Airport Improvement Project at 8.00%, per annum	$ 21,350
Special Revenue Fund, Tax Increment Financing to Enterprise Fund, Hughes Project at 5.00% per annum	34,447
Special Revenue Fund, Tax Increment Financing to Special Revenue Fund, Recreation Center Project at 5.00 % per annum	47,500
	$ 103,297

NOTE 15. Economic Development Revolving Loan Fund

The City has granted a corporation a non-interest bearing loan agreement in the amount of $325,000 to build a speculative building in the Manchester Industrial Park for the purpose of attracting new industry and/or creating jobs in the City of Manchester. Principal is due October 1, 2004 unless the building is sold, leased, or otherwise transferred without prior written consent of the lender. As of June 30, 2004, $301,492 has been advanced on the loan agreement. The loan is secured by real estate.

NOTE 16. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer To:	Transfer From:	Amount
General	Special Revenue:	
	Employee Benefit Fund	$ 288,223
	2002 Hazard Unmet Needs	4
	COPS Program	15,000
	Health	2,602
		305,829

NOTE 16. Interfund Transfers (Continued)

Transfer To:	Transfer From:	Amount
Special Revenue:		
Fire Capital Growth Improvement	General	$ 11,771
Airport Fly-In	General	1,445
Park Improvement	General	5,000
Street Equipment Reserve	General	1,500
Sports Complex	General	5,841
Holiday Decoration Replacement	General	500
Capital Projects:		
Aquatic Center Project	General	486
Quaker Mill Drive Project	Special Revenue	
	Road Use Tax	75,000
	Local Option	160,000
	Capital Projects:	
	Street Improvement Fund	102,844
	Enterprise:	
	Water Utility	47,550
	Sewer Utility	11,580
		396,974
Downtown Incentive Program	Special Revenue:	
	Tax Increment Financing	3,340
North Franklin/Gales Ave. Street Project	Capital Projects:	
	Street Improvement Fund	90,000
Street Improvement Fund	Capital Projects:	
	Sidewalk Construction	405
Debt Service	Special Revenue:	
	Tax Increment Financing	132,585
	Total	$ 955,676

NOTE 17. Deficit Funds Balance

The Capital Projects-Levied, 2001 CDBG Housing, 2002 CDBG Housing, N. Franklin/Gales Avenue and FEMA Property Acquisition funds had deficit fund balance amounts of $28,127, $5,340, $203,904, $421,273 and $4,697, respectively. The City will be receiving grant money, donations or transfer funds to eliminate these fund balances.

NOTE 18. Litigation

The City is subject to a potential litigation involving an employee. The matter has been referred to the City's insurance carrier for review of potential liability. The City intends to vigorously defend any actions, if they arise, and no provisions have been made in the financial statements related to these claims.

NOTE 19. Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities.

NOTE 20. Subsequent Event

Subsequent to year-end, the City issued general obligation corporate purpose and refunding notes, Series 2004. As part of refinancing, the City received a good faith deposit in the amount of $47,500 from the lending institution in June 2004, which is to be either repaid in June 2005, including interest, or will be incorporated as part of the total proceeds of the issue. As of the date of this report, the City was negotiating the amount and terms of this refinancing issue.

The City also entered into construction contracts totaling $502,012 for various projects.

Required Supplementary Information

City of Manchester
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property Tax	$ 1,735,565	$ -	$ -
Tax Increment Financing Collections	358,684	-	-
Other City Tax	326,991	-	-
Licenses and Permits	50,394	-	-
Use of Money and Property	33,680	12,157	-
Intergovernmental	1,078,970	-	-
Charges for Service	387,586	2,356,494	1,449,671
Special Assessments	161,648	1,759	-
Miscellaneous	183,030	12,464	8,147
Total Receipts	4,316,548	2,382,874	1,457,818
Disbursements:			
Public Safety	950,095	564,682	564,682
Public Works	844,865	231,634	231,634
Health and Social Services	-	-	-
Culture and Recreation	587,519	257,206	257,206
Community and Economic Development	113,872	33,445	33,445
General Government	168,035	77,433	77,433
Debt Service	523,317	-	-
Capital Projects	1,560,389	-	-
Business Type Activities	-	1,058,461	293,418
Total Disbursements	4,748,092	2,222,861	1,457,818
Excess (Deficiency) of Receipts over (under) Disbursements	(431,544)	160,013	-
Other Financing Sources, Net	139,667	(34,130)	-
Excess (Deficiency) of Receipts and Other Financing Sources over (under) Disbursements and Other Financing Uses	(291,877)	125,883	-
Balances, Beginning of Year	1,829,006	1,100,166	-
Balances, End of Year	$ 1,537,129	$ 1,226,049	$ -

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
$ 1,735,565	$ 1,595,193	$ 1,595,193	$ 140,372
358,684	320,500	321,543	37,141
326,991	404,474	436,053	(109,062)
50,394	52,505	52,505	(2,111)
45,837	52,470	52,470	(6,633)
1,078,970	1,243,704	1,596,201	(517,231)
1,294,409	1,533,761	1,533,761	(239,352)
163,407	125,923	144,813	18,594
187,347	156,210	156,210	31,137
5,241,604	5,484,740	5,888,749	(647,145)
950,095	1,031,282	1,031,282	81,187
844,865	863,572	864,362	19,497
-	11,200	11,200	11,200
587,519	672,808	672,808	85,289
113,872	114,686	120,146	6,274
168,035	240,076	240,076	72,041
523,317	583,135	645,800	122,483
1,560,389	1,151,482	1,672,427	112,038
765,043	994,862	994,862	229,819
5,513,135	5,663,103	6,252,963	739,828
(271,531)	(178,363)	(364,214)	92,683
105,537	100,000	236,697	(131,160)
(165,994)	(78,363)	(127,517)	(38,477)
2,929,172	2,715,896	2,715,896	213,276
$ 2,763,178	$ 2,637,533	$ 2,588,379	$ 174,799

City of Manchester

Notes to Required Supplementary Information – Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by $404,009 and increased budgeted disbursements by $589,860. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2004

	Special Revenue		
	Employee Benefit Fund	Police Special Uses	Tax Increment Financing
Receipts:			
Property Tax	$ 340,094	$ -	$ -
Tax Increment Financing Collections	-	-	358,684
Other City Tax	764	-	-
Use of Money	181	46	1,061
Charges for Services	-	-	-
Intergovernmental	-	9,729	-
Special Assessments	-	-	-
Miscellaneous	25,867	6,272	-
Total Receipts	366,906	16,047	359,745
Disbursements:			
Operating:			
Public Safety	-	13,095	-
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	24,460	-	-
Debt Service	-	-	103,100
Capital Projects	-	-	8,631
Total Disbursements	24,460	13,095	111,731
Excess (Deficiency) of Receipts Over (Under) Disbursements	342,446	2,952	248,014
Other Financing Sources (Uses):			
Bond Proceeds	-	-	-
Anticipatory Notes Issued	-	-	-
Interfund Loans	-	-	(30,000)
Operating Transfers In	-	-	-
Operating Transfers Out	(288,223)	-	(135,925)
Total Other Financing Sources (Uses)	(288,223)	-	(165,925)
Net Change in Cash Balances	54,223	2,952	82,089
Cash Balances, Beginning of Year	45,934	6,020	(2,929)
Cash Balances, End of Year	$ 100,157	$ 8,972	$ 79,160
Cash Basis Fund Balances			
Reserved			
Debt Service	$ -	$ -	$ -
Unreserved			
Special Revenue Funds	100,157	8,972	79,160
Capital Project Fund	-	-	-
Total Cash Basis Fund Balance	$ 100,157	$ 8,972	$ 79,160

Airport Fly-In	Tirrill Trust	COPS Program	POLICE Canine Program	Park Gift & Trust
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	395	31	216
-	-	-	-	2,220
-	-	-	-	-
-	-	-	-	-
-	1,860	7,000	1,151	3,819
-	1,860	7,395	1,182	6,255
-	-	-	565	-
-	-	-	-	-
-	-	-	-	3,686
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	565	3,686
-	1,860	7,395	617	2,569
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,445	-	-	-	-
-	-	(15,000)	-	-
1,445	-	(15,000)	-	-
1,445	1,860	(7,605)	617	2,569
-	(251)	28,262	4,380	13,643
$ 1,445	$ 1,609	$ 20,657	$ 4,997	$ 16,212
$ -	$ -	$ -	$ -	$ -
1,445	1,609	20,657	4,997	16,212
-	-	-	-	-
$ 1,445	$ 1,609	$ 20,657	$ 4,997	$ 16,212

(continued)

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds (continued)
As of and for the Year Ended June 30, 2004

	Special Revenue		
	Park Improvement	Sports Complex	Health
Receipts:			
Property Tax	$ -	$ -	$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Use of Money	299	-	57
Charges for Services	-	-	-
Intergovernmental	-	-	-
Special Assessments	-	-	-
Miscellaneous	1,015	-	-
Total Receipts	1,314	-	57
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	9,209	367	-
Community and Economic Development	-	-	-
General Government	-	-	352
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	9,209	367	352
Excess (Deficiency) of Receipts Over (Under) Disbursements	(7,895)	(367)	(295)
Other Financing Sources (Uses):			
Bond Proceeds	-	-	-
Anticipatory Notes Issued	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	5,000	5,841	-
Operating Transfers Out	-	-	(2,602)
Total Other Financing Sources (Uses)	5,000	5,841	(2,602)
Net Change in Cash Balances	(2,895)	5,474	(2,897)
Cash Balances, Beginning of Year	33,104	-	2,902
Cash Balances, End of Year	$ 30,209	$ 5,474	$ 5
Cash Basis Fund Balances			
Reserved			
Debt Service	$ -	$ -	$ -
Unreserved			
Special Revenue Funds	30,209	5,474	5
Capital Project Fund	-	-	-
Total Cash Basis Fund Balance	$ 30,209	$ 5,474	$ 5

Fire Truck Reserve	Fire Capital Growth Improvement	Rescue Squad Replacement	Housing Acquisition / Demolition Project	Lorna Stewart Trust
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
1,825	-	73	483	304
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
760	-	-	16,531	-
2,585	-	73	17,014	304
25,478	10,447	-	-	-
-	-	-	-	-
-	-	-	-	195
-	-	-	16,971	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
25,478	10,447	-	16,971	195
(22,893)	(10,447)	73	43	109
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	11,771	-	-	-
-	-	-	-	-
-	11,771	-	-	-
(22,893)	1,324	73	43	109
132,526	10,148	23,862	36,947	4,088
$ 109,633	$ 11,472	$ 23,935	$ 36,990	$ 4,197
$ -	$ -	$ -	$ -	$ -
109,633	11,472	23,935	36,990	4,197
-	-	-	-	-
$ 109,633	$ 11,472	$ 23,935	$ 36,990	$ 4,197

(continued)

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds (continued)
As of and for the Year Ended June 30, 2004

	Special Revenue		
	Holiday Decoration Replacement	Library Gift and Trust	2001 Project Note Fund
Receipts:			
Property Tax	$ -	$ -	$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Use of Money	-	425	-
Charges for Services	-	-	-
Intergovernmental	-	4,636	-
Special Assessments	-	-	-
Miscellaneous	-	1,998	-
Total Receipts	-	7,059	-
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	-	21,272	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	-	21,272	-
Excess (Deficiency) of Receipts Over (Under) Disbursements	-	(14,213)	-
Other Financing Sources (Uses):			
Bond Proceeds	-	-	-
Anticpatory Notes Issued	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	500	-	-
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	500	-	-
Net Change in Cash Balances	500	(14,213)	-
Cash Balances, Beginning of Year	1,117	38,037	9,762
Cash Balances, End of Year	$ 1,617	$ 23,824	$ 9,762
Cash Basis Fund Balances			
Reserved			
Debt Service	$ -	$ -	$ -
Unreserved			
Special Revenue Funds	1,617	23,824	9,762
Capital Project Fund	-	-	-
Total Cash Basis Fund Balance	$ 1,617	$ 23,824	$ 9,762

Capital Projects				
Economic Development Revolving Fund	Downtown Incentive Program	2001 CDBG - Home Funds	2002 CDBG Housing	Sidewalk Construction
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
698	650	-	-	-
-	-	-	-	-
-	-	48,493	152,229	-
-	-	-	-	-
-	2,000	-	685	-
698	2,650	48,493	152,914	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	3,286	-	-	-
-	64,049	9,871	339,342	-
-	67,335	9,871	339,342	-
698	(64,685)	38,622	(186,428)	-
-	-	-	-	-
-	55,000	-	-	-
-	-	-	-	-
-	3,340	-	-	-
-	-	-	-	(405)
-	58,340	-	-	(405)
698	(6,345)	38,622	(186,428)	(405)
45,349	26,920	(43,962)	(17,476)	405
$ 46,047	$ 20,575	$ (5,340)	$ (203,904)	$ -
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
46,047	20,575	(5,340)	(203,904)	-
$ 46,047	$ 20,575	$ (5,340)	$ (203,904)	$ -

(continued)

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds (continued)
As of and for the Year Ended June 30, 2004

	Capital Projects		
	2002 Hazard Unmet Needs	Bikeway Walkway Project	Street Improvement Fund
Receipts:			
Property Tax	$ -	$ -	$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Use of Money	-	-	2,246
Charges for Services	-	-	-
Intergovernmental	-	-	-
Special Assessments	-	-	140,502
Miscellaneous	-	-	208
Total Receipts	-	-	142,956
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	1,965
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	-	-	1,965
Excess (Deficiency) of Receipts Over (Under) Disbursements	-	-	140,991
Other Financing Sources (Uses):			
Bond Proceeds	-	-	-
Anticipatory Notes Issued	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	-	-	405
Operating Transfers Out	(4)	-	(192,844)
Total Other Financing Sources (Uses)	(4)	-	(192,439)
Net Change in Cash Balances	(4)	-	(51,448)
Cash Balances, Beginning of Year	4	3,487	187,478
Cash Balances, End of Year	$ -	$ 3,487	$ 136,030
Cash Basis Fund Balances			
Reserved			
Debt Service	$ -	$ -	$ -
Unreserved			
Special Revenue Funds	-	-	-
Capital Project Fund	-	3,487	136,030
Total Cash Basis Fund Balance	$ -	$ 3,487	$ 136,030

Aquatic Center Project	N. 8th/ West Fayette Street Project	North Franklin/ Gales Ave. Street Project	FEMA Property Acquisition
$ -	$ -	$ -	$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	50,889
-	-	-	-
-	-	-	43
-	-	-	50,932
-	-	-	-
-	-	-	-
115	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	509,042	11,766
115	-	509,042	11,766
(115)	-	(509,042)	39,166
-	-	-	-
-	-	-	-
-	-	-	-
486	-	90,000	-
-	-	-	-
486	-	90,000	-
371	-	(419,042)	39,166
(371)	734	(2,231)	(43,863)
$ -	$ 734	$ (421,273)	$ (4,697)
$ -	$ -	$ -	$ -
-	-	-	-
-	734	(421,273)	(4,697)
$ -	$ 734	$ (421,273)	$ (4,697)

(continued)

Schedule 1

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds (Continued)
As of and for the Year Ended June 30, 2004

	Capital Projects		
	Capital Projects - Levied	Debt Service	Total
Receipts:			
Property Tax	$ -	$ 304,584	$ 644,678
Tax Increment Financing Collections	-	-	358,684
Other City Tax	-	643	1,407
Use of Money	-	1,135	10,125
Charges for Services	-	-	2,220
Intergovernmental	-	-	265,976
Special Assessments	-	-	140,502
Miscellaneous	-	-	69,209
Total Receipts	-	306,362	1,492,801
Disbursements:			
Operating:			
Public Safety	-	-	49,585
Public Works	-	-	1,965
Culture and Recreation	-	-	34,844
Community and Economic Development	-	-	16,971
General Government	-	-	24,812
Debt Service	-	416,931	523,317
Capital Projects	28,127	-	970,828
Total Disbursements	28,127	416,931	1,622,322
Excess (Deficiency) of Receipts Over (Under) Disbursements	(28,127)	(110,569)	(129,521)
Other Financing Sources (Uses):			
Bond Proceeds	-	47,500	47,500
Anticipatory Notes Issued	-	-	55,000
Interfund Loans	-	-	(30,000)
Operating Transfers In	-	132,585	251,373
Operating Transfers Out	-	-	(635,003)
Total Other Financing Sources (Uses)	-	180,085	(311,130)
Net Change in Cash Balances	(28,127)	69,516	(440,651)
Cash Balances, Beginning of Year	-	(42,757)	501,269
Cash Balances, End of Year	$ (28,127)	$ 26,759	$ 60,618
Cash Basis Fund Balances			
Reserved			
Debt Service	$ -	$ 26,759	$ 26,759
Unreserved			
Special Revenue Funds	-	-	490,327
Capital Project Fund	(28,127)	-	(456,468)
Total Cash Basis Fund Balance	$ (28,127)	$ 26,759	$ 60,618

See Accompanying Independent Auditor's Report

City of Manchester
Schedule of Indebtedness
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates		Amount Originally Issued
General Obligation Bonds:				
Aquatic Center, Street & Refunding Bonds	November 1, 1996	4.150 - 5.000%	$	2,220,000
Street Improvement Note	May 1, 2001	4.850%		190,000
Essential Corporate Purpose	August 9, 2002	3.850%		230,000
Total				
Urban Renewal Tax Increment-PCI Financing (TIF) Revenue Bonds	June 1, 1995	6.750%	$	235,000
Urban Renewal Tax Increment-ITW Financing (TIF) Revenue Bonds	July 20, 1995	4.000%		225,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	November 8, 2002	6.000%		155,000
Small Business Administration	June 15, 1991	4.000%	$	180,000
Urban Renewal Tax Increment Revenue Bond Anticipation (Project) Note	March 4, 2002	2.990%	$	300,000

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
$ 1,060,000	$ -	$ 270,000	$ 790,000	50,860
161,000	-	16,000	145,000	7,615
70,000	-	70,000	-	2,027
$ 1,291,000	$ -	$ 356,000	$ 935,000	$ 60,502
$ 88,234	$ -	$ 28,787	$ 59,447	$ 5,493
80,067	-	30,497	49,570	2,909
155,000	-	7,162	147,838	14,339
$ 323,301	$ -	$ 66,446	$ 256,855	$ 22,741
$ 37,706	$ -	$ 12,629	$ 25,077	$ 1,278
$ 68,301	$ 55,000	$ -	$ 123,301	$ 3,286

City of Manchester
Schedule of Bond and Note Maturities
Year Ended June 30, 2004

General Obligation Bonds

Year Ending June 30,	Street Improvement Note Issued May 1, 2001		Aquatic Center, Street and Refunding Bonds Issued November 1, 1996		
	Interest Rates %	Amount	Interest Rates %	Amount	Total
2005	4.85	$ 48,000.00	4.700	$ 280,000.00	$ 328,000.00
2006	4.85	50,000.00	4.800	245,000.00	295,000.00
2007	4.85	47,000.00	5.000	265,000.00	312,000.00
Total		$ 145,000.00		$ 790,000.00	$ 935,000.00

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds

Year Ending June 30,	Issued June 1, 1995		Issued July 20, 1995	
	Interest Rates	Amount	Interest Rates	Amount
2005	6.7500	$ 30,776.47	4.0000	$ 31,736.51
2006	6.7500	28,670.94	4.0000	17,833.74
2007	-	-	-	-
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
Total		$ 59,447.41		$ 49,570.25

Small Business Administration

Issued June 15, 1991	
Interest Rates %	Amount
4.00	$ 13,144.17
4.00	11,932.73
-	-
	$ 25,076.90

Issued November 8, 2002		
Interest Rates %	Amount	Total
6.0000	$ 12,819.71	$ 75,332.69
6.0000	13,600.42	60,105.10
6.0000	14,428.69	14,428.69
6.0000	15,291.05	15,291.05
6.0000	16,238.62	16,238.62
6.0000	17,227.55	17,227.55
6.0000	18,276.72	18,276.72
6.0000	19,384.77	19,384.77
6.0000	20,570.12	20,570.12
	$ 147,837.65	$ 256,855.31

City of Manchester
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds For the Last Four Years

	2004	2003	2002	2001
Receipts:				
Property Tax	$ 1,735,565	$ 1,608,259	$ 1,661,843	$ 1,655,859
Tax Increment Financing Collections	358,684	277,351	295,875	337,166
Other City Tax	326,991	395,266	311,712	314,464
Licenses and Permits	50,394	22,143	29,179	35,867
Use of Money and Property	33,680	39,290	79,833	134,466
Intergovernmental	1,078,970	1,107,135	936,345	1,400,661
Charges for Services	387,586	437,389	451,154	428,789
Special Assessments	161,648	126,153	109,098	154,881
Miscellaneous	183,030	229,268	462,759	214,182
Total	$ 4,316,548	$ 4,242,254	$ 4,337,798	$ 4,676,335
Disbursements:				
Operating:				
Public Safety	$ 950,095	$ 877,367	$ 1,020,476	$ 963,071
Public Works	844,865	822,483	808,550	933,880
Health and Social Services	-	2,600	3,500	3,500
Culture and Recreation	587,519	592,072	503,541	480,103
Community and Economic Development	113,872	138,059	159,394	131,273
General Government	168,035	232,908	212,600	198,107
Debt Service	523,317	615,361	679,568	612,356
Capital Projects	1,560,389	1,009,515	1,834,794	1,410,290
Total	$ 4,748,092	$ 4,290,365	$ 5,222,423	$ 4,732,580

See Accompanying Independent Auditor's Report

Honkamp Krueger & Co., P.C.
Certified Public Accountants
& Business Consultants

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Honorable Mayor and
Members of the City Council
City of Manchester
Manchester, Iowa

We have audited the financial statements of the City of Manchester, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item IV-I-03.

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Manchester's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Manchester's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Statutory Reporting Requirements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04, is a material weakness. Prior year reportable conditions have been resolved except for II-A-03.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Manchester and other parties to whom the City of Manchester may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Manchester during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Dubuque, Iowa
August 18, 2004

City of Manchester
Schedule of Statutory Reporting Requirements
Year Ended June 30, 2004

Part I. Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

I-A-04 **Segregation of Duties**: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response: We have reviewed procedures and plan to continue to look for improvements to internal control.

Conclusion: Response acknowledged.

PART II: Other Findings Related to Statutory Reporting

II-A-04 **Official Depositories**: A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 **Certified Budget**: Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.

II-C-04 **Questionable Disbursements**: No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-D-04 **Travel Expense**: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Manchester
Schedule of Statutory Reporting Requirements (Continued)
Year Ended June 30, 2004

II-E-04 **Business Transactions**: Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
James Wessels, Police Officer, Owner of Wessels Tuckpointing	Repairs/Tuckpointing	$ 450
Dan Recker, Dispatcher Owner of Recker Signs	Supplies	585
Mike Corkery, Fireman, Owner of NE Iowa Telephone Service	Parts and Supplies	6,338

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Dispatcher and Police Officer do not appear to represent conflicts of interest since total transactions with each individual were less than $1,500 during the fiscal year. The transactions with the Fireman do not appear to represent conflicts of interest since they were entered into through competitive bidding and council approval.

II-F-04 **Bond Coverage**: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 **Council Minutes**: No transactions were found that we believe should have been approved in the Council minutes but were not.

II-H-04 **Deposits and Investments**: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-04 **Financial Condition**: The Capital Projects-Levied, 2001 CDBG Housing, 2002 CDBG Housing, N. Franklin/Gales Avenue and FEMA Property Acquisition funds had deficit balances at June 30, 2004 totaling $663,341.

Recommendation: The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial position.

Response: The City will receive grant money, donations, and transfer funds to eliminate these fund balances.

Conclusion: Response accepted.

Honkamp Krueger & Co., P.C.
Certified Public Accountants
& Business Consultants

August 18, 2004

To the City Council
City of Manchester
Manchester, Iowa

We have audited the financial statements of the City of Manchester for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated April 30, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Manchester. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Manchester's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Manchester are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Manchester's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Manchester, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council of the City of Manchester and management and is not intended and should not be used by anyone other than these specified parties.

Sincerely Yours,

HONKAMP KRUEGER & CO., P.C.

Honkamp Krueger & Co., P.C.
Certified Public Accountants
& Business Consultants

City Council
City of Manchester
Manchester, Iowa

In planning and performing our audit of the financial statements of the City of Manchester for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Segregation of Duties

A limited number of City personnel perform many of the accounting and financial functions. Therefore, many of the aspects of an ideal internal accounting control structure are missing in the City due to an inadequate segregation of duties. We recognize that the hiring of additional personnel may not be the most cost effective method to maximize the segregation of accounting duties. However, the City should be aware of this condition and realize that the concentration of duties and responsibilities given to a limited number of City personnel is not ideal with respect to the internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is believed to be a material weakness.

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This report is intended solely for the information and use of the City Council and management of the City of Manchester, and is not intended to be, and should not be used by anyone other than these specified parties.

Dubuque, Iowa
August 18, 2004

City of Manchester
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2004

Finding II-04-A. Lack of Segregation of Duties

Contact person responsible for corrective action: Erin Rempe (563) 927-3636

Condition: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to is completion. The City lacks an adequate internal control structure due to an inadequate segregation of duties.

Corrective Action

Response: The City concurs with the recommendations, however, believes the supervision by management and City Council members are considered mitigating factors in the lack of segregation of duties. The City recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

Date of Completion

Ongoing.

City of Manchester
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2004

Finding II-03-A. Lack of Segregation of Duties

Contact person responsible for corrective action: Erin Rempe (563) 927-3636

Corrective Action

Response: The City concurs with the recommendations, however, believes the supervision by management and City Council members are considered mitigating factors in the lack of segregation of duties. The City recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

Date of Completion

Ongoing

News Release

For Release: _____

Honkamp Krueger & Co., P.C. released an audit report on the City of Manchester, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled $5,347,141 for the year ended June 30, 2004, a .2% decrease from 2003. The receipts included $1,762,179 in property tax, $358,684 from tax increment financing collections, $1,294,409 from charges for service, $663,722 from operating grants, contributions and restricted interest, $432,266 from capital grants, contributions and restricted interest, $323,176 from local option sales tax, $36,987 from unrestricted investment earnings and $475,718 from other general receipts.

Disbursements for the year totaled $5,513,135, a 12.8% increase from the prior year, and included $1,560,389 for capital projects, $950,095 for public safety and $844,865 for public works. Also, disbursements for business type activities totaled $765,043.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

February 28, 2005

City of Manchester
Manchester, Iowa

PREPARATION OF AUDIT FOR THE YEAR ENDED JUNE 30, 2004

STAFF	HOURS	TOTAL
Douglas C. Funke	15.55	
Sue M. Lawler	87.74	
Danell A. DeBacker	.34	
Kristin K. Kluesner	2.00	
Heather N. Deininger	23.87	
Karla A. Hagerty	26.07	
Chris Splinter (typing and copying)	16.07	
Total Hours	171.64	
Total Audit Fee		$ 8,725