

COPY

Financial Statements

City of Manchester

June 30, 2005

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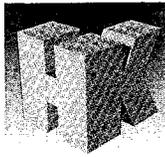
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City of Manchester

List of Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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
Timothy J. Vick	City Manager	June 2007
Erin Rempe	City Clerk	January 2006
Julie Schmitz	Treasurer-Deputy City Clerk	Indefinite
James T. Peters	Attorney	January 2006



Honkamp Krueger & Co., PC.
*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, 2005, 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 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, 2005, 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.

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This discussion and analysis is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the audited financial statements.

2005 FINANCIAL HIGHLIGHTS

- The City's overall receipts and transfers increased by approximately \$3,344,291, or 63% from fiscal year 2004 to fiscal year 2005. Property tax increased by \$11,723, or approximately 1%. The City had bond proceeds of \$2,757,500 in fiscal year 2005.
- Disbursements increased 50%, or approximately \$2,739,869 from fiscal year 2004 to fiscal year 2005. This is due to increased street project activity and debt refinancing.
- The City's total cash basis net assets increased by 16%, or approximately \$438,428 from June 30, 2004 to June 30, 2005.

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 department and sewer department. 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, Bikeway/Walkway Construction, Subdivision Improvements, Street Projects, and FEMA Property Acquisition funds.

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 funds, 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.

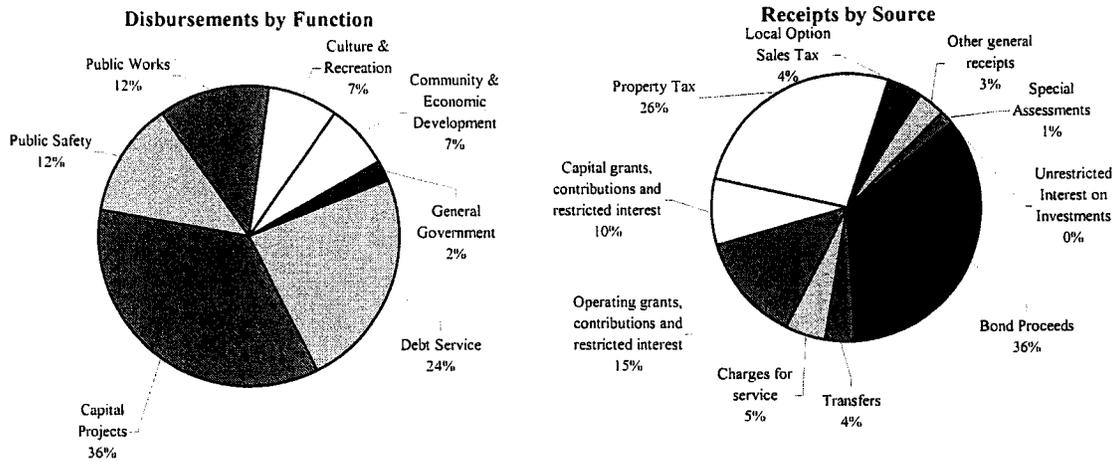
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

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 increased from a year ago, increasing from \$1,537,129 to \$2,027,711. The analysis that follows focuses on the changes in cash balances for governmental activities.

City of Manchester		
Change in Cash Basis Net Assets of Governmental Activities		
	Years Ended June 30	
	2005	2004
Receipts and transfers:		
Program Receipts:		
Charges for service	\$ 379,332	\$ 387,586
Operating grants, contributions and restricted interest	1,030,283	663,722
Capital grants, contributions and restricted interest	645,230	432,266
General Receipts:		
Property tax	2,086,615	2,094,249
Local Option Sales Tax	338,219	323,176
Franchise Tax	54,067	22,799
Other City Tax	3,397	3,815
Special Assessments	116,618	161,648
Unrestricted Interest on Investments	36,738	24,830
Bond Proceeds	2,757,500	47,500
Anticipatory Notes Issued	-	55,000
Miscellaneous	224,185	202,457
Sale of Assets	5,663	3,037
Interfund Loans	(13,000)	(25,000)
Transfers	283,332	59,130
Total receipts and transfers	\$ 7,948,179	\$ 4,456,215
Disbursements		
Public Safety	\$ 928,904	\$ 950,095
Public Works	900,842	844,865
Culture and Recreation	551,069	587,519
Community and Economic Development	526,735	113,872
General Government	162,541	168,035
Debt Service	1,760,950	523,317
Capital Projects	2,626,556	1,560,389
Total disbursements	\$ 7,457,597	\$ 4,748,092
Increase/decrease in cash basis net assets	490,582	(291,877)
Cash basis net assets beginning of year	1,537,129	1,829,006
Cash basis net assets end of year	\$ 2,027,711	\$ 1,537,129



The City's receipts, including other financing sources, for governmental activities totaled \$7,948,179 for Fiscal 2005. The total cost of all programs and services was \$7,457,597. The net result was an excess of \$490,582 for Fiscal 2005.

The City increased property tax rates for 2005 by an average of 7 percent. However, due to Residential Rollback, this increase only resulted in \$11,723 in additional property tax revenues.

The cost of all governmental activities this year was \$7,457,597 compared to \$4,748,092 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$2,086,615 because some of the cost was paid by other city taxes which include franchise taxes and local option taxes (\$395,683); by individuals or entities including governments and organizations who directly benefited from the service (\$176,807); or by bond proceeds (\$2,757,500). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,040,992 in taxes (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		
	Years Ended June 30	
	2005	2004
Receipts		
Program Receipts:		
Charges for service		
Water	\$ 481,863	\$ 505,307
Sewer	511,606	401,516
General Receipts:		
Special Assessments	4,823	1,759
Unrestricted Interest on Investments	12,357	12,157
Miscellaneous	2,936	4,317
Interfund Loans	13,000	25,000
Total receipts	\$ 1,026,585	\$ 950,056
Disbursements and transfers		
Water	355,079	385,601
Sewer	440,328	379,442
Transfers	283,332	59,130
Total disbursements and transfers	\$ 1,078,739	\$ 824,173
Increase/decrease in cash basis net assets	(52,154)	125,883
Cash basis net assets beginning of year	1,226,049	1,100,166
Cash basis net assets end of year	\$ 1,173,895	\$ 1,226,049

Total business type activities receipts for the fiscal year were \$1,026,585 compared to \$950,056 last year. The cash balance decreased by \$52,154 from the prior year due to expenditures associated with capital improvement projects. Total disbursements and transfers for the fiscal year increased by \$254,566, or 31%. This increase is primarily due to water and sewer improvements done with the Highway 13 Improvements Project and the Burrington Road Utility Extension Project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of \$2,027,711, an increase of \$490,582 from last year's total of \$1,537,129. 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, received the revenue transactions in fiscal year 2005 (\$471,010), while a large portion of the expenses were incurred in fiscal year 2004.

- The General Fund cash balance increased by \$34,237 from the prior year to \$448,206. This increase was due largely to the implementation of a franchise fee imposed upon the gas and electric utilities within the City. The City intends to use this money to offset revenue reductions incurred as a result of residential rollback and State budget cuts.
- The Road Use Tax Fund cash balance decreased by \$19,277 from the prior year to \$205,966. The decrease is attributable to a decrease in revenues and increased fuel and employee costs.
- The Tax Increment Fund cash balance increased by \$8,944 from the prior year to \$88,104. The increase was due to the refinancing of existing debt which resulted in interest savings for the City.
- The Debt Service Fund cash balance increased by \$714,291 from the prior year to \$741,050. The increase is due bonds proceeds received during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$107,644 to \$691,279, due to capital expenditures incurred as part of the Highway 13 Street Improvement Project and the Burrington Road Utility Extension Project.

The Sewer Fund cash balance increased by \$55,490 to \$482,616, due primarily to increased sewer rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Manchester amended its budget one time. The amendment was approved on May 23, 2005. The amendment was needed, in large part, due to the following items: increased expenditures associated with the City's CDBG housing grant, economic development incentives for two existing industries, refinancing done as part of the 2004 bond issue, and capital expenditures incurred as a result of new subdivision developments in the City. The City had issued bonds and utilized cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$2,498,444 in bonds and other long-term debt, compared to approximately \$1,387,733 last year, as shown below.

City of Manchester		
Outstanding Debt at Year-End		
	June 30,	
	2005	2004
General obligation bonds	\$ 1,875,000	\$ 982,500
Urban renewal tax increment revenue bonds	\$ 611,522	\$ 256,855
Small Business Administration	\$ 11,922	\$ 25,077
Urban renewal tax increment revenue anticipation note	\$ -	\$ 123,301
Total	\$ 2,498,444	\$ 1,387,733

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 \$1,875,000 is significantly below its constitutional debt limit of \$9,859,516.

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 2006 budget, tax rates, and fees that will be charged for various City activities.

A major factor in setting the fiscal year 2006 budget was how to offset the reduction of State funding to cities and the decreased taxable valuation due to residential rollback. The City is working to recoup these losses by reviewing charges for services, reviewing our contract with Delaware County for dispatching services, implementing gas and electric franchise fees.

The City's property tax rate will increase from \$15.24671 in Fiscal 2005 to \$15.25331 in Fiscal 2006. This is less than a 0.10% increase for property owners in the City of Manchester.

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 Timothy J. Vick, City Manager, or 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, 2005

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Functions / Programs:				
Primary Government:				
Governmental Activities:				
Public Safety	\$ 928,904	\$ 2,833	\$ 180,169	\$ 5,000
Public Works	900,842	246,739	811,317	482,320
Culture and Recreation	551,069	97,399	32,573	-
Community and Economic Development	526,735	31,817	6,224	157,910
General Government	162,541	544	-	-
Debt Service	1,760,950	-	-	-
Capital Projects	2,626,556	-	-	-
Total Governmental Activities	7,457,597	379,332	1,030,283	645,230
Business Type Activities:				
Water Utility	355,079	481,863	-	-
Wastewater Treatment	440,328	511,606	-	-
Total Business Type Activities	795,407	993,469	-	-
Total Primary Government	\$ 8,253,004	\$ 1,372,801	\$ 1,030,283	\$ 645,230
General Receipts:				
Property Tax Levied for:				
General Purposes				
Insurance				
Employee Benefits				
Tax Increment Financing				
Debt Service				
Local Option Sales Tax				
Other City Tax				
Franchise Tax				
Licenses, Permits and Franchise Fees				
Special Assessments				
Unrestricted Interest on Investments				
Bond Proceeds				
Miscellaneous				
Sale of Assets				
Interfund Loans				
Transfers In (Out)				
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:				
Urban Renewal Purposes				
Debt Service				
Other Purposes				
Unrestricted				
Total Cash Basis Net Assets				

Net (Disbursements) Receipts and
Change in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (740,902)	\$ -	\$ (740,902)
639,534	-	639,534
(421,097)	-	(421,097)
(330,784)	-	(330,784)
(161,997)	-	(161,997)
(1,760,950)	-	(1,760,950)
(2,626,556)	-	(2,626,556)
<u>(5,402,752)</u>	<u>-</u>	<u>(5,402,752)</u>
-	126,784	126,784
-	71,278	71,278
-	<u>198,062</u>	<u>198,062</u>
<u>(5,402,752)</u>	<u>198,062</u>	<u>(5,204,690)</u>
920,095	-	920,095
113,184	-	113,184
329,022	-	329,022
339,328	-	339,328
384,986	-	384,986
338,219	-	338,219
3,397	-	3,397
54,067	-	54,067
54,526	-	54,526
116,618	4,823	121,441
36,738	12,357	49,095
2,757,500	-	2,757,500
170,322	2,936	173,258
5,000	-	5,000
(13,000)	13,000	-
<u>283,332</u>	<u>(283,332)</u>	<u>-</u>
<u>5,893,334</u>	<u>(250,216)</u>	<u>5,643,118</u>
490,582	(52,154)	438,428
<u>1,537,129</u>	<u>1,226,049</u>	<u>2,763,178</u>
<u>\$ 2,027,711</u>	<u>\$ 1,173,895</u>	<u>\$ 3,201,606</u>
\$ 88,104	\$ -	\$ 88,104
741,050	-	741,050
750,351	-	750,351
<u>448,206</u>	<u>1,173,895</u>	<u>1,622,101</u>
<u>\$ 2,027,711</u>	<u>\$ 1,173,895</u>	<u>\$ 3,201,606</u>

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, 2005

	General	Special Revenue		
		Tax Increment Financing	Road Use Tax	Street Equipment Reserve
Receipts:				
Property Tax	\$ 1,033,279	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	339,328	-	-
Other City Tax	50,266	-	-	-
Licenses and Permits	54,526	-	-	-
Use of Money and Property	14,941	2,120	-	5,046
Charges for Service	378,160	-	-	-
Intergovernmental	235,947	-	437,098	-
Special Assessments	-	-	-	-
Miscellaneous	118,093	-	-	3,439
Total Receipts	1,885,212	341,448	437,098	8,485
Disbursements:				
Operating:				
Public Safety	903,819	-	-	-
Public Works	453,795	-	381,375	53,330
Culture and Recreation	529,205	-	-	-
Community and Economic Development	113,168	408,817	-	-
General Government	133,757	-	-	-
Debt Service	-	143,650	-	-
Capital Projects	-	-	-	-
Total Disbursements	2,133,744	552,467	381,375	53,330
Excess (Deficiency) of Receipts over (under) Disbursements	(248,532)	(211,019)	55,723	(44,845)
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	-	-
Debt Proceeds	-	430,000	-	-
Interfund Loans	-	(18,000)	-	5,000
Operating Transfers In	307,119	-	-	-
Operating Transfers Out	(24,350)	(192,037)	(75,000)	-
Total Other Financing Sources (Uses)	282,769	219,963	(75,000)	5,000
Net Change in Cash Balances	34,237	8,944	(19,277)	(39,845)
Cash Balances, Beginning of Year	413,969	79,160	225,243	327,141
Cash Balances, End of Year	\$ 448,206	\$ 88,104	\$ 205,966	\$ 287,296
Cash Basis Fund Balances				
Reserved:				
Debt Service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General Fund	448,206	-	-	-
Special Revenue Funds	-	88,104	-	287,296
Capital Project Funds	-	-	205,966	-
Total Cash Basis Fund Balances	\$ 448,206	\$ 88,104	\$ 205,966	\$ 287,296

Exhibit B

Capital Projects		Debt Service	Other Nonmajor Governmental Funds	Total
Street Projects	Subdivision Improvements			
\$ -	\$ -	\$ 384,986	\$ 329,022	\$ 1,747,287
-	-	-	-	339,328
-	-	706	338,878	389,850
-	-	-	-	54,526
-	-	13,005	10,070	45,182
-	-	-	1,704	379,864
423,716	-	-	253,174	1,349,935
53,030	-	-	63,587	116,617
-	293,210	-	78,016	492,758
<u>476,746</u>	<u>293,210</u>	<u>398,697</u>	<u>1,074,451</u>	<u>4,915,347</u>
-	-	-	25,085	928,904
-	-	-	12,342	900,842
-	-	-	21,864	551,069
-	-	-	4,750	526,735
-	-	-	28,784	162,541
-	-	1,617,300	-	1,760,950
1,546,672	705,073	-	374,811	2,626,556
<u>1,546,672</u>	<u>705,073</u>	<u>1,617,300</u>	<u>467,636</u>	<u>7,457,597</u>
<u>(1,069,926)</u>	<u>(411,863)</u>	<u>(1,218,603)</u>	<u>606,815</u>	<u>(2,542,250)</u>
-	-	-	5,000	5,000
-	-	2,327,500	-	2,757,500
-	-	-	-	(13,000)
1,327,519	140,000	196,640	493,994	2,465,272
-	-	(591,246)	(1,299,307)	(2,181,940)
<u>1,327,519</u>	<u>140,000</u>	<u>1,932,894</u>	<u>(800,313)</u>	<u>3,032,832</u>
257,593	(271,863)	714,291	(193,498)	490,582
(421,273)	-	26,759	886,130	1,537,129
<u>\$ (163,680)</u>	<u>\$ (271,863)</u>	<u>\$ 741,050</u>	<u>\$ 692,632</u>	<u>\$ 2,027,711</u>
\$ -	\$ -	\$ 741,050	\$ -	\$ 741,050
-	-	-	-	448,206
-	-	-	452,566	827,966
(163,680)	(271,863)	-	240,066	10,489
<u>\$ (163,680)</u>	<u>\$ (271,863)</u>	<u>\$ 741,050</u>	<u>\$ 692,632</u>	<u>\$ 2,027,711</u>

See Notes to Financial Statements

City of Manchester
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances to the Statement of Activities
and Net Assets - Governmental Funds
As of and for the Year Ended June 30, 2005

Total Governmental Funds Cash Balance (page 13)	\$	2,027,711
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*Amounts Reported for Governmental Activities in the
Statement of Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit plan and payroll costs to individual funds. The assets of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.

Cash Basis Net Assets of Governmental Activities (page 12)	\$	<u> -</u> <u> 2,027,711</u>
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Net Change in Cash Balances (page 13)	\$	490,582
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*Amounts Reported for Governmental Activities in the
Statement of Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

Change in Cash Balance of Governmental Activities (page 12)	\$	<u> -</u> <u> 490,582</u>
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City of Manchester
Statement of Cash Receipts, Disbursements and Changes in
Cash Balances - Proprietary Funds
As of and for the Year Ended June 30, 2005

	Enterprise Funds			Internal Service Fund
	Water Utility	Sewer Utility	Total	Employee Health
Operating Receipts:				
Use of Money and Property	\$ 7,469	\$ 4,888	\$ 12,357	\$ -
Charges for Service	481,863	511,606	993,469	1,485,515
Special Assessments	4,823	-	4,823	-
Miscellaneous	1,119	1,817	2,936	9,578
Total Operating Receipts	<u>495,274</u>	<u>518,311</u>	<u>1,013,585</u>	<u>1,495,093</u>
Operating Disbursements:				
Governmental Activities:				
Public Safety	-	-	-	589,634
Public Works	-	-	-	239,352
Culture and Recreation	-	-	-	255,633
Community and Economic Development	-	-	-	38,271
General Government	-	-	-	56,706
Business Type Activities	355,079	440,328	795,407	315,497
Total Operating Disbursements	<u>355,079</u>	<u>440,328</u>	<u>795,407</u>	<u>1,495,093</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>140,195</u>	<u>77,983</u>	<u>218,178</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>140,195</u>	<u>77,983</u>	<u>218,178</u>	<u>-</u>
Other Financing Sources (Uses)				
Interfund Loans	-	13,000	13,000	-
Operating Transfers Out	(247,839)	(35,493)	(283,332)	-
Total Other Financing Sources (Uses)	<u>(247,839)</u>	<u>(22,493)</u>	<u>(270,332)</u>	<u>-</u>
Net Change in Cash Balances	(107,644)	55,490	(52,154)	-
Cash Balances Beginning of Year	798,923	427,126	1,226,049	-
Cash Balances End of Year	<u>\$ 691,279</u>	<u>\$ 482,616</u>	<u>\$ 1,173,895</u>	<u>\$ -</u>
Cash Basis Fund Balances				
Reserved for Debt Service	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>691,279</u>	<u>482,616</u>	<u>1,173,895</u>	<u>-</u>
Total Cash Basis Fund Balance	<u>\$ 691,279</u>	<u>\$ 482,616</u>	<u>\$ 1,173,895</u>	<u>\$ -</u>

See Notes to Financial Statements

City of Manchester
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances to the Statement of Activities
and Net Assets - Proprietary Funds
As of and for the Year Ended June 30, 2005

Total Enterprise Funds Cash Balance (page 15)	\$	1,173,895
 <i>Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:</i>		
None		-
Cash Basis Net Assets of Business Type Activities (page 12)	\$	<u>1,173,895</u>
Net Change in Cash Balances (page 15)	\$	(52,154)
 <i>Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:</i>		
None		-
Change in Cash Balance of Business Type Activities (page 12)	\$	<u>(52,154)</u>

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 Organizations

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 or employees are members of the following boards and commissions:

- Delaware County Economic Development Commission
- Delaware County Solid Waste Commission
- Regional Planning Affiliation Policy Board
- Delaware County E911 Board
- Manchester Area Chamber of Commerce
- Greater Delaware County Foundation
- Delaware County Softball Commission
- Facilities Management Committee
- Eastern Iowa Regional Housing Authority Commission
- Eastern Iowa Clandestine Lab

City of Manchester

Notes to Financial Statements

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.

City of Manchester

Notes to Financial Statements

NOTE 1. Significant Accounting Policies (Continued)

Basis of Presentation (continued)

Special Revenue:

The Tax Increment Financing/Urban Renewal Fund is used to account for urban renewal projects financed by tax increment financing.

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

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 Subdivision Improvement 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 Meadow Park Subdivision.

The Street Projects 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 street construction projects in the city.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt, except when authorized or required to be paid from other funds.

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.

City of Manchester

Notes to Financial Statements

NOTE 1. Significant Accounting Policies (Continued)

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.

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, 2005, disbursements did not exceed the amounts budgeted.

NOTE 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 consist of certificates of deposits held within the State of Iowa.

City of Manchester

Notes to Financial Statements

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. The first installment of this note was received in August 2005.

\$ 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.

\$ 6,000

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
2006	\$ 470,000	\$ 58,345	\$ 11,922	\$ 229
2007	500,000	47,535	-----	-----
2008	120,000	33,785	-----	-----
2009	120,000	30,065	-----	-----
2010	125,000	25,985	-----	-----
2011	125,000	21,360	-----	-----
2012	135,000	16,610	-----	-----
2013	135,000	11,345	-----	-----
2014	145,000	5,945	-----	-----
2015	-----	-----	-----	-----
2016	-----	-----	-----	-----
2017	-----	-----	-----	-----
Total	<u>\$ 1,875,000</u>	<u>\$ 250,975</u>	<u>\$ 11,922</u>	<u>\$ 229</u>

City of Manchester

Notes to Financial Statements

NOTE 4. Bond and Notes Payable (Continued)

Y/E 6/30	Tax Increment Financing (TIF) Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 60,105	\$ 33,954	\$ 542,027	\$ 92,528
2007	35,929	31,798	535,929	79,333
2008	58,291	29,081	178,291	62,866
2009	59,239	25,661	179,239	55,726
2010	60,227	22,200	185,227	48,185
2011	61,277	18,677	186,277	40,037
2012	62,385	15,098	197,385	31,708
2013	63,569	11,439	198,569	22,784
2014	43,000	8,036	188,000	13,981
2015	43,000	5,563	43,000	5,563
2015	43,000	3,091	43,000	3,091
2017	<u>21,500</u>	<u>618</u>	<u>21,500</u>	<u>618</u>
Total	<u>\$ 611,522</u>	<u>\$205,216</u>	<u>\$ 2,498,444</u>	<u>\$ 456,420</u>

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 expired 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, 2005, the City had repaid the note and had \$0 outstanding under this agreement.

City of Manchester

Notes to Financial Statements

NOTE 6. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$90,512, \$87,010 and \$86,236, 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, 2005, relating to the General Fund, Special Revenue Funds, and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 74,175</u>

This liability has been computed based on rate of pay as of June 30, 2005.

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 \$375,355 at June 30, 2005. 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.

City of Manchester

Notes to Financial Statements

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 \$300 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 15, 2005 through May 15, 2010. The lease covers storage space in a building and antenna and equipment space on the water tower on Williams Street. The \$296 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 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

City of Manchester

Notes to Financial Statements

NOTE 8. Lease Agreements (Continued)

9. 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.
10. 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.
11. 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.
12. 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 \$2,265,199. The unpaid contract balances as of June 30, 2005 totaled approximately \$1,632,730, which will be paid as work on the projects progress.

City of Manchester

Notes to Financial Statements

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 \$11,569 during the year ended June 30, 2005.

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 \$896,573 is outstanding at June 30, 2005. 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.

City of Manchester

Notes to Financial Statements

NOTE 14. Interfund Loans

The City has the following interfund loans at June 30, 2005:

Special Revenue Fund, Tax Increment Financing from Enterprise Fund, Airport Improvement Project at 8.00%, per annum	\$ 36,449
Special Revenue Fund, Tax Increment Financing from Enterprise Fund, Hughes Project at 5.00% per annum	31,169
Special Revenue Fund, Tax Increment Financing from Special Revenue Fund, Recreation Center Project at 5.00 % per annum	<u>44,875</u>
	<u>\$ 112,493</u>

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 21, 2006 unless the building is sold, leased, or otherwise transferred without prior written consent of the lender. As of June 30, 2005, \$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, 2005 is as follows:

<u>Transfer To:</u>	<u>Transfer From:</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit Fund	\$ 282,119
	COPS Program	15,000
	Health	<u>10,000</u>
		<u>307,119</u>

City of Manchester

Notes to Financial Statements

NOTE 16. Interfund Transfers (Continued)

Transfer To:	Transfer From:	Amount
Special Revenue:		
Airport Fly-In	General	\$ 818
Sports Complex	General	5,976
Fire Truck Expense	General	17,556
Capital Projects:		
Subdivision Improvements	Debt Service	140,000
Bikeway/Walkway	Capital Projects: Street Improvement Fund	5,000
Capital Projects – Levied	Debt Service	200,000
2002 CDBG Housing	Debt Service	75,000
Downtown Incentive Program	Debt Service	176,246
Street Projects	Special Revenue:	
	Local Option	797,959
	Tax Increment Financing	5,159
	Road Use	75,000
	Enterprise:	
	Water Utility	247,839
	Sewer Utility	35,493
	Capital Projects:	
	Street Improvement Fund	<u>166,069</u>
		<u>1,327,519</u>
Street Improvement Fund	Capital Projects:	
	Quaker Mill Drive	12,664
	N 8 th West Fayette	734
		<u>13,398</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	186,878
	Capital Projects:	
	2001 Project Note	<u>9,762</u>
		<u>196,640</u>
		<u>\$ 2,465,272</u>

City of Manchester

Notes to Financial Statements

NOTE 17. Deficit Funds Balance

The Bikeway/Walkway Project, Subdivision Improvements, 2002 CDBG Housing and Street Projects fund had deficit fund balance amounts of \$41,007, \$271,863, \$224,392 and \$163,680, respectively. The City will be receiving grant money, donations, bond proceeds, or will 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. The plaintiff has indicated through his counsel that he intends to dismiss the petitions. However, no dismissal has been received at this time.

NOTE 19. Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met. Obligations under the agreement are subject to annual appropriation by the City Council. The total paid by the City under the agreements during the year ended June 30, 2005 was \$14,531.

The City's obligation under these agreements for fiscal year 2006 will not exceed \$16,000.

These agreements are not a general obligation of the City. However, the amount payable in the succeeding year is subject to the constitutional debt limitation of the City.

City of Manchester

Notes to Financial Statements

NOTE 20. Subsequent Event

Subsequent to year end, the City entered into construction contracts totaling \$273,132 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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property Tax	\$ 1,747,287	\$ -	\$ -
Tax Increment Financing Collections	339,328	-	-
Other City Tax	389,850	-	-
Licenses and Permits	54,526	-	-
Use of Money and Property	45,182	12,357	-
Charges for Service	379,864	2,478,984	1,485,515
Intergovernmental	1,349,935	-	-
Special Assessments	116,617	4,823	-
Miscellaneous	492,758	12,514	9,578
Total Receipts	4,915,347	2,508,678	1,495,093
Disbursements:			
Public Safety	928,904	589,634	589,634
Public Works	900,842	239,352	239,352
Culture and Recreation	551,069	255,633	255,633
Community and Economic Development	526,735	38,271	38,271
General Government	162,541	56,706	56,706
Debt Service	1,760,950	-	315,497
Capital Projects	2,626,556	-	-
Business Type Activities	-	1,110,904	-
Total Disbursements	7,457,597	2,290,500	1,495,093
Excess of Receipts over Disbursements	(2,542,250)	218,178	-
Other Financing Sources, Net	3,032,832	(270,332)	-
Excess of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	490,582	(52,154)	-
Balances, Beginning of Year	1,537,129	1,226,049	-
Balances, End of Year	\$ 2,027,711	\$ 1,173,895	\$ -

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 1,747,287	\$ 1,655,481	\$ 1,740,264	\$ 7,023
339,328	330,500	331,500	7,828
389,850	405,175	405,175	(15,325)
54,526	50,805	50,805	3,721
57,539	48,570	48,570	8,969
1,373,333	1,317,554	1,399,774	(26,441)
1,349,935	1,173,324	1,475,046	(125,111)
121,440	130,000	178,031	(56,591)
495,694	167,956	397,614	98,080
<u>5,928,932</u>	<u>5,279,365</u>	<u>6,026,779</u>	<u>(97,847)</u>
928,904	979,580	987,070	58,166
900,842	948,084	948,084	47,242
551,069	574,694	590,489	39,420
526,735	128,346	1,087,137	560,402
162,541	168,866	198,792	36,251
1,445,453	702,946	1,757,234	311,781
2,626,556	1,835,570	3,274,099	647,543
1,110,904	971,046	1,241,835	130,931
<u>8,253,004</u>	<u>6,309,132</u>	<u>10,084,740</u>	<u>1,831,736</u>
(2,324,072)	(1,029,767)	(4,057,961)	1,733,889
<u>2,762,500</u>	<u>422,215</u>	<u>3,260,408</u>	<u>(497,908)</u>
438,428	(607,552)	(797,553)	1,235,981
2,763,178	2,738,387	2,763,742	(564)
<u>\$ 3,201,606</u>	<u>\$ 2,130,835</u>	<u>\$ 1,966,189</u>	<u>\$ 1,235,417</u>

See Accompanying Independent Auditor's Report

City of Manchester

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 \$3,585,607 and increased budgeted disbursements by \$3,775,608. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, 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, 2005

	Special Revenue		
	Employee Benefit Fund	Local Option	Police Special Issues
Receipts:			
Property Tax	\$ 329,022	\$ -	\$ -
Other City Tax	659	338,219	-
Use of Money and Property	1,529	1,670	47
Charges for Services	-	-	-
Intergovernmental	-	-	8,808
Special Assessments	-	-	-
Miscellaneous	30,065	-	5,195
Total Receipts	<u>361,275</u>	<u>339,889</u>	<u>14,050</u>
Disbursements:			
Operating:			
Public Safety	-	-	15,819
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	28,784	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>28,784</u>	<u>-</u>	<u>15,819</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>332,491</u>	<u>339,889</u>	<u>(1,769)</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Operating Transfers In	-	-	-
Operating Transfers Out	(282,119)	(797,959)	-
Total Other Financing Sources (Uses)	<u>(282,119)</u>	<u>(797,959)</u>	<u>-</u>
Net Change in Cash Balances	50,372	(458,070)	(1,769)
Cash Balances, Beginning of Year	100,157	510,158	8,972
Cash Balances, End of Year	<u>\$ 150,529</u>	<u>\$ 52,088</u>	<u>\$ 7,203</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$ 150,529	\$ -	\$ 7,203
Capital Project Fund	-	52,088	-
Total Cash Basis Fund Balance	<u>\$ 150,529</u>	<u>\$ 52,088</u>	<u>\$ 7,203</u>

Schedule 1

Airport Fly-In	Tirrill Trust	COPS Program	POLICE Canine Program	Park Gift & Trust	Park Improvement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	255	32	240	408
-	-	-	-	1,704	-
-	-	-	-	-	-
-	-	-	-	-	-
3,200	1,558	2,999	150	4,693	-
<u>3,200</u>	<u>1,558</u>	<u>3,254</u>	<u>182</u>	<u>6,637</u>	<u>408</u>
-	-	-	96	-	-
13	-	-	-	-	-
-	430	-	-	3,467	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>13</u>	<u>430</u>	<u>-</u>	<u>96</u>	<u>3,467</u>	<u>-</u>
3,187	1,128	3,254	86	3,170	408
-	-	-	-	-	-
818	-	-	-	-	-
-	-	(15,000)	-	-	(10,000)
<u>818</u>	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
4,005	1,128	(11,746)	86	3,170	(9,592)
1,445	1,609	20,657	4,997	16,212	30,209
<u>\$ 5,450</u>	<u>\$ 2,737</u>	<u>\$ 8,911</u>	<u>\$ 5,083</u>	<u>\$ 19,382</u>	<u>\$ 20,617</u>
\$ 5,450	\$ 2,737	\$ 8,911	\$ 5,083	\$ 19,382	\$ 20,617
-	-	-	-	-	-
<u>\$ 5,450</u>	<u>\$ 2,737</u>	<u>\$ 8,911</u>	<u>\$ 5,083</u>	<u>\$ 19,382</u>	<u>\$ 20,617</u>

(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, 2005

	Special Revenue		
	Sports Complex	Health	Fire Truck Reserve
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Other City Tax	-	-	-
Use of Money and Property	73	-	1,678
Charges for Services	-	-	-
Intergovernmental	-	-	-
Special Assessments	-	-	-
Miscellaneous	4,897	-	200
Total Receipts	<u>4,970</u>	<u>-</u>	<u>1,878</u>
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	10,471	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>10,471</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(5,501)</u>	<u>-</u>	<u>1,878</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Operating Transfers In	5,976	-	17,556
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>5,976</u>	<u>-</u>	<u>17,556</u>
Net Change in Cash Balances	475	-	19,434
Cash Balances, Beginning of Year	5,474	5	109,633
Cash Balances, End of Year	<u>\$ 5,949</u>	<u>\$ 5</u>	<u>\$ 129,067</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$ 5,949	\$ 5	\$ 129,067
Capital Project Fund	-	-	-
Total Cash Basis Fund Balance	<u>\$ 5,949</u>	<u>\$ 5</u>	<u>\$ 129,067</u>

Schedule 1

Fire Capital Growth Improvement	Rescue Squad Replacement	Housing Acquisition/ Demolition Project	Lorna Stewart Trust	Holiday Decoration Replacement
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	366	566	172	-
-	-	-	-	-
-	-	-	-	-
-	-	6,224	-	-
-	366	6,790	172	-
9,170	-	-	-	-
-	-	-	-	-
-	-	-	-	193
-	-	4,750	-	-
-	-	-	-	-
-	-	-	-	-
9,170	-	4,750	-	193
(9,170)	366	2,040	172	(193)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(9,170)	366	2,040	172	(193)
11,472	23,935	36,990	4,197	1,617
\$ 2,302	\$ 24,301	\$ 39,030	\$ 4,369	\$ 1,424
\$ 2,302	\$ 24,301	\$ 39,030	\$ 4,369	\$ 1,424
-	-	-	-	-
\$ 2,302	\$ 24,301	\$ 39,030	\$ 4,369	\$ 1,424

(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, 2005

	Special Revenue		
	Library Gift and Trust	Economic Development Revolving Fund	2001 Project Note Fund
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Other City Tax	-	-	-
Use of Money	351	705	-
Charges for Services	-	-	-
Intergovernmental	5,733	-	-
Special Assessments	-	-	-
Miscellaneous	3,602	-	-
Total Receipts	<u>9,686</u>	<u>705</u>	<u>-</u>
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	7,303	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>7,303</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>2,383</u>	<u>705</u>	<u>-</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	(9,762)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(9,762)</u>
Net Change in Cash Balances	2,383	705	(9,762)
Cash Balances, Beginning of Year	<u>23,824</u>	<u>46,047</u>	<u>9,762</u>
Cash Balances, End of Year	<u>\$ 26,207</u>	<u>\$ 46,752</u>	<u>\$ -</u>
Cash Basis Fund Balances			
Unreserved			
Special Revenue Funds	\$ 26,207	\$ -	\$ -
Capital Project Fund	-	46,752	-
Total Cash Basis Fund Balance	<u>\$ 26,207</u>	<u>\$ 46,752</u>	<u>\$ -</u>

Capital Projects

Downtown Incentive Program	2001 CDBG - Home Funds	2002 CDBG Housing	Bikeway Walkway Project	Quaker Mill Drive Project
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
1,403	-	-	-	-
-	-	-	-	-
-	13,746	138,550	-	7,640
-	-	-	-	-
2,000	-	569	-	12,664
<u>3,403</u>	<u>13,746</u>	<u>139,119</u>	<u>-</u>	<u>20,304</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
22,878	3,077	239,607	49,494	-
<u>22,878</u>	<u>3,077</u>	<u>239,607</u>	<u>49,494</u>	<u>-</u>
(19,475)	10,669	(100,488)	(49,494)	20,304
-	-	5,000	-	-
176,246	-	75,000	5,000	-
-	-	-	-	(12,664)
<u>176,246</u>	<u>-</u>	<u>80,000</u>	<u>5,000</u>	<u>(12,664)</u>
156,771	10,669	(20,488)	(44,494)	7,640
20,575	(5,340)	(203,904)	3,487	-
<u>\$ 177,346</u>	<u>\$ 5,329</u>	<u>\$ (224,392)</u>	<u>\$ (41,007)</u>	<u>\$ 7,640</u>
\$ -	\$ -	\$ -	\$ -	\$ -
177,346	5,329	(224,392)	(41,007)	7,640
<u>\$ 177,346</u>	<u>\$ 5,329</u>	<u>\$ (224,392)</u>	<u>\$ (41,007)</u>	<u>\$ 7,640</u>

(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, 2005

	Capital Projects		
	Street Improvement Fund	N. 8th/ West Fayette Street Project	FEMA Property Acquisition
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Other City Tax	-	-	-
Use of Money	575	-	-
Charges for Services	-	-	-
Intergovernmental	73,083	-	5,614
Special Assessments	63,587	-	-
Miscellaneous	-	-	-
Total Receipts	<u>137,245</u>	<u>-</u>	<u>5,614</u>
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	12,329	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>12,329</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>124,916</u>	<u>-</u>	<u>5,614</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Operating Transfers In	13,398	-	-
Operating Transfers Out	(171,069)	(734)	-
Total Other Financing Sources (Uses)	<u>(157,671)</u>	<u>(734)</u>	<u>-</u>
Net Change in Cash Balances	(32,755)	(734)	5,614
Cash Balances, Beginning of Year	136,030	734	(4,697)
Cash Balances, End of Year	<u>\$ 103,275</u>	<u>\$ -</u>	<u>\$ 917</u>
Cash Basis Fund Balances			
Unreserved			
Special Revenue Funds	\$ -	\$ -	\$ -
Capital Project Fund	103,275	-	917
Total Cash Basis Fund Balance	<u>\$ 103,275</u>	<u>\$ -</u>	<u>\$ 917</u>

<u>Capital Projects - Levied</u>	<u>Total</u>
\$ -	\$ 329,022
-	338,878
-	10,070
-	1,704
-	253,174
-	63,587
-	78,016
-	<u>1,074,451</u>
-	25,085
-	12,342
-	21,864
-	4,750
-	28,784
-	-
59,755	374,811
<u>59,755</u>	<u>467,636</u>
<u>(59,755)</u>	<u>606,815</u>
	5,000
200,000	493,994
-	<u>(1,299,307)</u>
200,000	(800,313)
140,245	(193,498)
<u>(28,127)</u>	<u>886,130</u>
\$ <u>112,118</u>	\$ <u>692,632</u>
\$ -	452,566
112,118	<u>240,066</u>
\$ <u>112,118</u>	\$ <u>692,632</u>

See Accompanying Independent Auditor's Report

**City of Manchester
Schedule of Indebtedness
Year Ended June 30, 2005**

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	July 1, 2004	2.000%	2,375,000
Total			
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	June 1, 1995	6.750%	\$ 235,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	July 20, 1995	4.000%	225,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	March 2, 2005	5.750%	430,000
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

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 790,000	\$ -	\$ 790,000	\$ -	8,270
145,000	-	145,000	-	875
47,500	2,327,500	500,000	1,875,000	62,650
<u>\$ 982,500</u>	<u>\$ 2,327,500</u>	<u>\$ 1,435,000</u>	<u>\$ 1,875,000</u>	<u>\$ 71,795</u>
\$ 59,447	\$ -	\$ 30,776	\$ 28,671	\$ 3,504
49,570	-	31,737	17,833	1,669
-	430,000	-	430,000	6,113
147,838	-	12,820	135,018	8,682
<u>\$ 256,855</u>	<u>\$ 430,000</u>	<u>\$ 75,333</u>	<u>\$ 611,522</u>	<u>\$ 19,968</u>
<u>\$ 25,077</u>	<u>\$ -</u>	<u>\$ 13,155</u>	<u>\$ 11,922</u>	<u>\$ 762</u>
<u>\$ 123,301</u>	<u>\$ -</u>	<u>\$ 123,301</u>	<u>\$ -</u>	<u>\$ 453</u>

See Accompanying Independent Auditor's Report

City of Manchester
Schedule of Bond and Note Maturities
Year Ended June 30, 2005

General Obligation Bonds

Year Ending June 30,	Essential Corporate Purpose Issued July 1, 2004	
	Interest Rates %	Amount
2006	2.00	\$ 470,000
2007	2.00	500,000
2008	2.00	120,000
2009	2.00	120,000
2010	2.00	125,000
2011	2.00	125,000
2012	2.00	135,000
2013	2.00	135,000
2014	2.00	145,000
Total		\$ 1,875,000

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
2006	6.7500	\$ 28,671	4.0000	\$ 17,833
2007	-	-	-	-
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
Total		\$ 28,671		\$ 17,833

Small Business Administration

Issued June 15, 1991	
Interest Rates %	Amount
4.00	\$ 11,922
-	-
-	-
-	-
-	-
-	-
-	-
-	-
	<u>\$ 11,922</u>

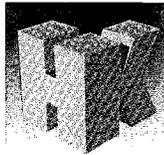
Issued November 8, 2002		Issued March 2, 2005		Total
Interest Rates %	Amount	Interest Rates %	Amount	
6.0000	\$ 13,600	5.750	\$ -	\$ 60,104
6.0000	14,429	5.750	21,500	35,929
6.0000	15,291	5.750	43,000	58,291
6.0000	16,239	5.750	43,000	59,239
6.0000	17,227	5.750	43,000	60,227
6.0000	18,277	5.750	43,000	61,277
6.0000	19,385	5.750	43,000	62,385
6.0000	20,570	5.750	43,000	63,570
	-	5.750	43,000	43,000
	-	5.750	43,000	43,000
	-	5.750	43,000	43,000
	-	5.750	21,500	21,500
	<u>\$ 135,018</u>		<u>\$ 430,000</u>	<u>\$ 611,522</u>

See Accompanying Independent Auditor's Report

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Receipts:				
Property Tax	\$ 1,747,287	\$ 1,735,565	\$ 1,608,259	\$ 1,661,843
Tax Increment Financing Collections	339,328	358,684	277,351	295,875
Other City Tax	389,850	326,991	395,266	311,712
Licenses and Permits	54,526	50,394	22,143	29,179
Use of Money and Property	45,182	33,680	39,290	79,833
Intergovernmental	1,349,935	1,078,970	1,107,135	936,345
Charges for Services	379,864	387,586	437,389	451,154
Special Assessments	116,617	161,648	126,153	109,098
Miscellaneous	492,758	183,030	229,268	462,759
Total	<u>\$ 4,915,347</u>	<u>\$ 4,316,548</u>	<u>\$ 4,242,254</u>	<u>\$ 4,337,798</u>
Disbursements:				
Operating:				
Public Safety	\$ 928,904	\$ 950,095	\$ 877,367	\$ 1,020,476
Public Works	900,842	844,865	822,483	808,550
Health & Social Services	-	-	2,600	3,500
Culture and Recreation	551,069	587,519	592,072	503,541
Community and Economic Development	526,735	113,872	138,059	159,394
General Government	162,541	168,035	232,908	212,600
Debt Service	1,760,950	523,317	615,361	679,568
Capital Projects	2,626,556	1,560,389	1,009,515	1,834,794
Total	<u>\$ 7,457,597</u>	<u>\$ 4,748,092</u>	<u>\$ 4,290,365</u>	<u>\$ 5,222,423</u>

See Accompanying Independent Auditor's Report



Honkamp Krueger & Co., PC.
Certified Public Accountants
& Business Consultants

**Independent Auditor's Report on Compliance
and on Internal Control Over Financial Reporting
and or Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards**

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 remaining fund information of the City of Manchester, Iowa, as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 19, 2005. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinions 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-05, is a material weakness.

Compliance and other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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, 2005, 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.

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, including federal awarding agencies and pass-through entities. 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 19, 2005

City of Manchester
Schedule of Statutory Reporting Requirements
Year Ended June 30, 2005

PART I. Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

I-A-05 **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.

I-B-05 **Separately Maintained Records:** The Manchester Volunteer Fire Department maintains separate accounting records pertaining to their operation. The financial transactions and resulting balances are not included in the City's accounting records.

Recommendation: Chapter 384.20 of the Code of Iowa states in part "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any City purpose, by any City officer, employee or other person, and which show the receipt, use, and disposition of all City property." The Manchester Volunteer Fire Department should determine the status of the separate accounts for accountability and reporting purposes. If the Manchester Volunteer Fire Department wishes to maintain custody and control over the separate accounts, they should be established as legally separate entities from the City, with Articles of Incorporation and by-laws. Otherwise, the City should include these accounts in its records, in accordance with Chapter 384.20 of the Code of Iowa. Legal counsel should be consulted for assistance, as necessary, to resolve this issue.

Response: We will consider this.

Conclusion: Response acknowledged.

City of Manchester
Schedule of Statutory Reporting Requirements (Continued)
Year Ended June 30, 2005

PART I. Findings Related to the Financial Statements

I-C-05 **Disbursements Authorization and Documentation:** Invoices, checks and other supporting documentation did not contain proper authorization.

Recommendation: All invoices or other supporting documentation should include evidence of Council's authorization and be included in a listing, including check numbers, approved and signed by the Council.

Response: The City will ensure that appropriate procedures are followed in the future.

Conclusion: Response accepted.

PART II: Other Findings Related to Statutory Reporting

II-A-05 **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, 2005.

II-B-05 **Certified Budget:** Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.

II-C-05 **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-05 **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, 2005

PART II: Other Findings Related to Statutory Reporting

II-E-05 **Business Transactions:** Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Wessels, Police Officer, Owner of Wessels Tuckpointing	Repairs/Tuckpointing	\$ 1,670
Mike Corkery, Fireman, Owner of NE Iowa Telephone Service	Parts and Supplies	9,899

The transactions with the Police Officer and Fireman do not appear to represent conflicts of interest since they were entered into through competitive bidding and council approval.

II-F-05 **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-05 **Council Minutes:** Except as noted in I-C-05 and below, no transactions were found that we believe should have been approved in the Council minutes but were not.

During our audit work, it was noted that the minutes kept on file at Council Chambers as public record were not signed by the appropriate City officials timely.

The City did not hold a public hearing for the Burrington Road Project as required by Chapter 384.95 to 384.103 of the Code of Iowa. The City did appropriately follow the bidding requirements for the project.

Recommendation: The City should ensure that public hearings and bidding requirements are followed in accordance with Chapter 384.95 to 384.103 of the Code of Iowa for all public improvement projects that exceed the threshold outlined in the Code. The City should also insure that the minutes kept at Council Chamber's as public record are signed upon approval.

Response: The City will ensure that appropriate procedures are followed in the future.

Conclusion: Response accepted.

City of Manchester
Schedule of Statutory Reporting Requirements (Continued)
Year Ended June 30, 2005

PART II: Other Findings Related to Statutory Reporting

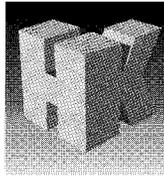
II-H-05 **Deposits and Investments:** No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-05 **Financial Condition:** The Bikeway/Walkway Project, Subdivision Improvements, 2002 CDBG Housing and Street Projects funds had deficit balances at June 30, 2005 totaling \$700,943.

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, bond proceeds, or will transfer funds to eliminate these fund balances.

Conclusion: Response accepted.



Honkamp Krueger & Co., PC.
*Certified Public Accountants
& Business Consultants*

August 19, 2005

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, 2005, and have issued our report thereon dated August 19, 2005. 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 June 15, 2005, 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 is responsible 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.

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

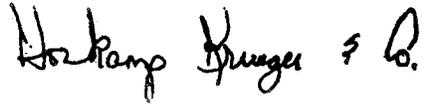
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not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

Difficulties Encountered in Performing the Audit

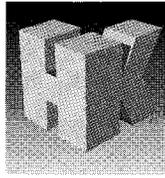
We encountered no significant difficulties in dealing with management in performing our audit.

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,

A handwritten signature in cursive script that reads "Honkamp Krueger & Co." The signature is written in black ink and is positioned above the printed name of the firm.

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, 2005, 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.

Additional items that came to our attention during the course of our audit, which are not believed to be material weaknesses include the following:

Check Signers

During the course of our audit, we noted that the listing of authorized check signers with First State Bank had not been updated with changes in council members since the 2002 resolution. We recommend the City update these listing promptly upon changes to ensure the proper safeguarding of assets.

How do your internal controls measure up to those required with SOX 404?

Sarbanes-Oxley and SOX 404 are phrases now being discussed among all companies, whether small or large. Although the requirements of the aforementioned are currently a requirement of companies mandated by the SEC, many companies that are not required to adhere to the Sarbanes-Oxley requirements are still demanding to have similar controls. This is an excellent strategy because strong controls mean more accurate and reliable financial reports which benefit management, investors and financial institutions.

Do you have strong internal controls? Most small- to mid-size companies would simply respond, "No" to this question. This is usually due to insufficient staff. However, you can still strengthen your current controls with the staff you have. Some simple areas to help improve your internal control are:

1. Network Security – Do you know which areas your employees have access to and is that much access necessary? Have you tested the level of access given to verify its integrity?
2. Policies and procedures for automatic log-off – does your system require a password to regain access if the user has left their desk for five minutes or longer?
3. Maintain a Policy and Procedure Manual – this is a critical part of ensuring that proper controls have been established and gives criteria for personnel to follow and adhere to. As an example, you want to make sure the person doing accounts payable data entry doesn't have access to change the general ledger.
4. Disaster recovery plans and data back-up procedures to restore loss of data – do you have such a plan in place and have you tested it annually to verify it works?

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.

Markamp Granger & Co.

Dubuque, Iowa
August 19, 2005

News Release

For Release: _____

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

The financial statements 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 \$8,691,432 for the year ended June 30, 2005, a 63% increase from 2005. The receipts included \$1,747,287 in property tax, \$339,328 from tax increment financing collections, \$1,372,801 from charges for service, \$1,030,283 from operating grants, contributions and restricted interest, \$645,230 from capital grants, contributions and restricted interest, \$338,219 from local option sales tax, \$49,095 from unrestricted investment earnings, \$2,762,500 from other financing sources and \$406,689 from other general receipts.

Disbursements for the year totaled \$8,253,004, a 50% increase from the prior year, and included \$2,626,556 for capital projects, \$1,760,950 for debt service and \$928,904 for public safety. Also, disbursements for business type activities totaled \$795,407.

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

January 13, 2006

City of Manchester
Manchester, Iowa

PREPARATION OF AUDIT FOR THE YEAR ENDED JUNE 30, 2005

<u>STAFF</u>	<u>HOURS</u>	<u>TOTAL</u>
Douglas D. Funke	2.00	
Dale J. Leibfried	.50	
Sue M. Lawler	95.88	
Adam R. Reisch	28.75	
Kristin K. Kluesner	21.32	
Heather N. Deininger	7.66	
Jackie M. Then	24.75	
Zack R. Armstrong	2.16	
Chris Splinter (typing and copying)	<u>13.85</u>	
Total Hours	<u>196.87</u>	
Total Audit Fee		<u>\$ 9,000</u>