

CITY OF MANCHESTER

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2006

	<u>Page</u>
Officials	2
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-13
<u>Basic Financial Statements:</u>	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 16-17
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 18-19
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C 21
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 22
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E 23
Notes to Financial Statements	24-34
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	36-37
Notes to Required Supplementary Information – Budgetary Reporting	38
<u>Other Supplementary Information:</u>	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 40-47
Schedule of Indebtedness	2 48-49
Bond and Note Maturities	3 50-51
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 52
Schedule of Expenditures of Federal Awards	5 53
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	54-55
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	57-58
Schedule of Findings and Questioned Costs	59-65
Staff	66

City of Manchester

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Milt L. Kramer	Mayor	Jan 2010
Darrell R. Hanson	Council Member	Jan 2008
Tony C. Broghammer	Council Member	Jan 2010
Daniel J. Stelken	Council Member	Jan 2008
Jeff L. Ogden	Council Member	Jan 2008
Ron R. Struble	Council Member	Jan 2010
Timothy J. Vick	City Manager	Jun 2007
Erin Rempe	City Clerk	Jan 2007
Julie Schmitz	Treasurer-Deputy City Clerk	Indefinite
James T. Peters	Attorney	Jan 2007



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 remaining fund information of the City of Manchester, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Manchester's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 U.S. generally accepted accounting principles.

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, 2006, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2006 on our consideration of the City of Manchester's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manchester's basic financial statements. The financial statements of the City of Manchester for the three years ended June 30, 2005, were audited by other auditors whose report dated August 19, 2005, expressed an unqualified opinion on those statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

December 6, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City implemented new reporting standards for the fiscal year ended June 30th, 2004, with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will become more meaningful and will go further in explaining the City's financial position and results of operation.

2006 FINANCIAL HIGHLIGHTS

- The City's overall revenues increased by approximately \$613,944, or 7% from fiscal 2005 to fiscal 2006. Property tax revenues increased by \$79,189, or approximately 4%.
- Disbursements increased by 1.5%, or approximately \$123,991 from fiscal 2005 to fiscal 2006.
- The City's total cash basis net assets increased by 29%, or approximately \$928,381 from June 30, 2005 to June 30, 2006.

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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 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 use of 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, 2005 Housing Grant Project, Bikeway/Walkway Construction, Subdivision Improvements, Street Project Fund, and FEMA Property Acquisition.

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

2) Proprietary Funds account for the City's Enterprise Funds and for 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 costs internally among the City's various functions.

The required financial statement for proprietary funds is 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

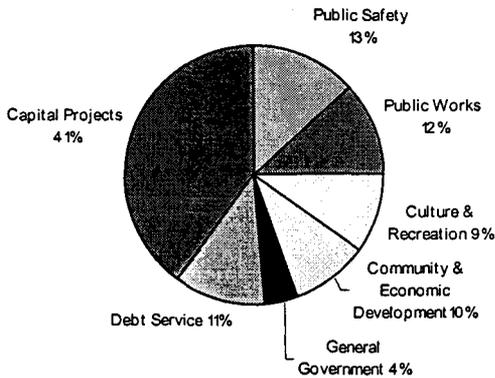
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2,027,711 to \$3,141,659.

The analysis that follows focuses on the changes in cash balances for governmental activities.

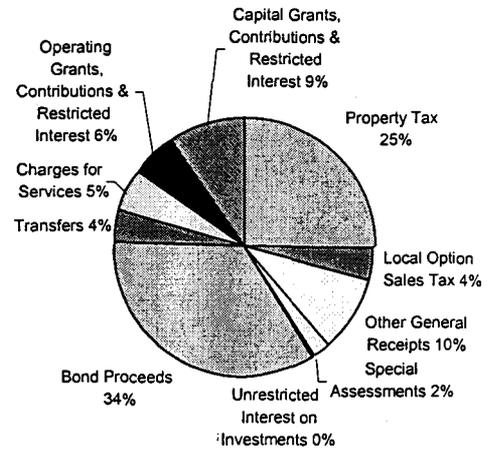
City of Manchester
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 436,288	\$ 379,332
Operating grants, contributions and restricted interest	504,415	1,030,283
Capital grants, contributions and restricted interest	813,298	645,230
General receipts:		
Property tax	2,165,804	2,086,615
Local option sales tax	331,803	338,219
Franchise tax	402,139	54,067
Other city tax	1,371	3,397
Special assessments	181,212	116,618
Unrestricted interest on investments	31,815	36,738
Bond proceeds	2,950,000	2,757,500
Miscellaneous	424,473	224,185
Sale of assets	1,887	5,663
Interfund loans	(13,000)	(13,000)
Transfers, net	342,442	283,332
Total receipts and transfers	\$8,573,947	\$7,948,179
Disbursements:		
Public Safety	\$ 998,579	\$ 928,904
Public Works	952,270	900,842
Culture and Recreation	630,143	551,069
Community and Economic Development	738,954	526,735
General Government	308,085	162,541
Debt Service	833,084	1,760,950
Capital Projects	2,998,884	2,626,556
Total disbursements	\$7,459,999	\$7,457,597
Increase in cash basis net assets	1,113,948	490,582
Cash basis net assets beginning of year	2,027,711	1,537,129
Cash basis net assets end of year	\$3,141,659	\$2,027,711

Disbursements by Function



Receipts by Source



The City's receipts including other financing sources for governmental activities totaled \$8,573,947 for Fiscal 2006. The total cost of all programs and services was \$7,459,999. The net result was an excess of \$1,113,948 for Fiscal 2006.

The City increased property tax rates for 2006 by an average of less than 1 percent. With Residential Rollback, this increase resulted in only \$79,189 in additional property tax revenues.

The cost of all governmental activities this year was \$7,459,999 compared to \$7,457,597 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$2,165,804 because some of the cost was paid by other city taxes which include franchise taxes and local option taxes (\$735,313); by individuals or entities including governments and organizations who directly benefited from the service (\$213,172); or by bond proceeds (\$2,950,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,395,710 in taxes (some of which could only be used for certain programs) and with other receipts, including interest, transfers from other funds and general entitlements.

City of Manchester		
Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service		
Water	\$ 517,349	\$ 481,863
Sewer	521,937	511,606
General receipts:		
Special assessments	-	4,823
Unrestricted interest on investments	20,585	12,357
Miscellaneous	1,000	2,936
Interfund loans	13,000	13,000
Total receipts and transfers	<u>\$ 1,073,871</u>	<u>\$ 1,026,585</u>
Disbursements:		
Water	\$ 490,279	\$ 355,079
Sewer	426,717	440,328
Transfers	342,442	283,332
Total disbursements	<u>\$ 1,259,438</u>	<u>\$ 1,078,739</u>
Increase in cash basis net assets	(185,567)	(52,154)
Cash basis net assets beginning of year	1,173,895	1,226,049
Cash basis net assets end of year	<u>\$ 988,328</u>	<u>\$ 1,173,895</u>

Total business type activities receipts for the fiscal year were \$1,073,871 compared to \$1,026,585 last year. The cash balance decreased by \$185,567 from the prior year due to expenditures associated with capital improvement projects. Total disbursements and transfers for the fiscal year increased by \$180,699 or 18%. This increase is primarily due to water and sewer improvements done with the 2005 Street Improvements Project, the Burrington Road Utility Extension Project, and Lift Station Improvements.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of \$3,141,659, an increase of \$1,113,948 from last year's total of \$2,027,711. 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 the 2005 Street Project, Subdivision Improvements Project, and the 2002 CDBG Housing Grant, received the revenue transactions in Fiscal Year 2006, while a large portion of the expenses were incurred in Fiscal Year 2005.
- The General Fund cash balance increased by \$129,331 from the prior year to \$577,537. This increase was due largely to the collection of franchise fees, imposed upon the gas and

electric utilities within the City in 2005. The City uses this money to offset revenue reductions incurred as a result of residential rollback and State budget cuts.

- The Road Use Tax Fund cash balance increased by \$12,952 from the prior year to \$218,918. The increase is attributable to a decrease in employee and consultant costs.
- The Debt Service Fund cash balance increased by \$335,588 from the prior year to \$1,076,638. The increase was due to the issuance of debt during the fiscal year, of which a portion will be used to pay for projects occurring in Fiscal Year 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$95,312 to \$595,967, due to capital expenditures incurred as part of the 2005 Street Improvement Project and the Burrington Road Utility Extension Project.
- The Sewer Fund cash balance decreased by \$90,255 to \$392,361, due primarily to capital expenditures incurred as part of the 2005 Street Improvement Project and the Lift Station Improvements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Manchester amended its budget one time. The amendment was approved on May 22nd, 2006. The amendment was needed, in large part, due to the following items: increased expenditures associated with the City's economic development grant/loan to X-L Specialized Trailers, relocation of the compost site, and gas and electric franchise fee rebates; reduction in capital projects expenditures due to delays with the West Marion Street Extension Project & the Schram Drive Project; and increased revenues associated with the collection of gas and electric franchise fees, 2002 and 2005 CDBG Housing Grant receipts, the compost site grant/loan, and the issuance of an economic development loan for X-L Specialized Trailers. The additional revenues received by the City absorbed the additional expenditures.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$4,774,349 in bonds and other long-term debt, compared to approximately \$2,498,444 last year, as shown below.

City of Manchester		
Outstanding Debt at Year-End		
	June 30,	
	2006	2005
General obligation bonds	\$ 3,705,000	\$ 1,875,000
Urban renewal tax increment financing revenue bonds	\$ 1,051,418	\$ 611,522
Small Business Administration	\$ -	\$ 11,922
Iowa Department of Natural Resources	\$ 17,931	\$ -
Total	\$ 4,774,349	\$ 2,498,444

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 and tax increment debt of \$4,774,349 is significantly below its constitutional debt limit of \$10,334,250.

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 2007 budget, tax rates, and fees charged for various City activities.

A major factor in setting the fiscal year 2007 budget was how to offset the continued decrease in taxable valuation due to residential rollback. The City is working to recoup these losses by reviewing annual charges for services and through the implementation of gas and electric franchise fees.

The City's property tax rate will increase from \$15.25331 in Fiscal 2006 to \$15.58959 in Fiscal 2007. This is a 2% 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.

Basic Financial Statements

City of Manchester
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Government Activities:				
Public Safety	\$ 998,579	\$ 14,994	\$ 14,992	\$ -
Public Works	952,270	251,102	445,821	161,826
Culture and Recreation	630,143	139,653	37,713	-
Community & Economic Development	738,954	30,539	1,311	651,472
General Government	308,085	-	4,578	-
Debt Service	833,084	-	-	-
Capital Projects	2,998,884	-	-	-
Total Government Activities	<u>7,459,999</u>	<u>436,288</u>	<u>504,415</u>	<u>813,298</u>
Business Type Activities:				
Water Utility	490,279	517,349	-	-
Wastewater Treatment	426,717	521,937	-	-
Total Business Type Activities	<u>916,996</u>	<u>1,039,286</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 8,376,995</u>	<u>\$ 1,475,574</u>	<u>\$ 504,415</u>	<u>\$ 813,298</u>
General Receipts:				
Property Tax Levied For:				
General Purposes				
Insurance				
Employee Benefits				
Tax Increment Financing				
Debt Service				
Local Sales Option Tax				
Other City Tax				
Franchise Tax				
Licenses and Permits				
Special Assessments				
Unrestricted Interest in 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				
See notes to financial statements.				

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (968,593)	\$ -	\$ (968,593)
(93,521)	-	(93,521)
(452,777)	-	(452,727)
(55,632)	-	(55,632)
(303,507)	-	(303,507)
(833,084)	-	(833,084)
(2,998,884)	-	(2,998,884)
(5,705,998)	-	(5,705,998)
-	27,070	27,070
-	95,220	95,220
-	122,290	122,290
(5,705,998)	122,290	(5,583,708)
953,014	-	953,014
119,978	-	119,978
349,207	-	349,207
339,272	-	339,272
404,333	-	404,333
331,803	-	331,803
1,371	-	1,371
402,139	-	402,139
31,960	-	31,960
181,212	-	181,212
31,815	20,585	52,400
2,950,000	-	2,950,000
392,513	-	392,513
1,887	1,000	2,887
(13,000)	13,000	-
342,442	(342,442)	-
6,819,946	(307,857)	6,512,089
1,113,948	(185,567)	928,381
2,027,711	1,173,895	3,201,606
\$ 3,141,659	\$ 988,328	\$ 4,129,987
\$ 517,736	\$ -	\$ 517,736
1,076,638	-	1,076,638
969,748	-	969,748
577,537	988,328	1,565,865
\$ 3,141,659	\$ 988,328	\$ 4,129,987

City of Manchester
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	General	Special Revenue		
		Tax Increment Financing	Road Use Tax	Street Equipment Reserve
Receipts:				
Property Tax	\$ 1,072,992	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	339,272	-	-
Other City Tax	402,139	-	-	-
Licenses and Permits	31,960	-	-	-
Use of Money and Property	12,145	7,660	-	5,289
Charges for Services	436,288	-	-	-
Intergovernmental	298,733	-	440,145	-
Special Assessments	-	-	-	-
Miscellaneous	66,467	-	-	387
Total Receipts	2,320,724	346,932	440,145	5,676
Disbursements:				
Operating:				
Public Safety	994,915	-	-	-
Public Works	474,121	-	352,193	118,625
Culture and Recreation	605,414	-	-	-
Community and Economic Development	149,064	561,835	-	-
General Government	277,452	-	-	-
Debt Service	-	71,221	-	-
Capital Projects	-	-	-	-
Total Disbursements	2,500,966	633,056	352,193	118,625
Excess (Deficiency) of Receipts over (under) Disbursements	(180,242)	(286,124)	87,952	(112,949)
Other Financing Sources (Uses):				
Debt Proceeds	-	500,000	-	-
Interfund Loans	-	(18,000)	-	5,000
Operating Transfers In	311,596	-	-	-
Operating Transfers Out	(2,023)	(195,972)	(75,000)	-
Total Other Financing Sources (Uses)	309,573	286,028	(75,000)	5,000
Net Change in Cash Balances	129,331	(96)	12,952	(107,949)
Cash Balances, Beginning of Year	448,206	88,104	205,966	287,296
Cash Balances, End of Year	\$ 577,537	\$ 88,008	\$ 218,918	\$ 179,347
Cash Fund Balances				
Reserved:				
Debt Service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General Fund	577,537	-	-	-
Special Revenues Fund	-	88,008	218,918	179,347
Capital Projects Fund	-	-	-	-
Total Cash Basis Fund Balances	\$ 577,537	\$ 88,008	\$ 218,918	\$ 179,347

See notes to financial statements.

Capital Projects				Other	
Street Projects	Subdivision Improvements	Sewer Improvements	Debt Service	Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 404,333	\$ 349,207	\$ 1,826,532
-	-	-	-	-	339,272
-	-	-	706	332,468	735,313
-	-	-	-	-	31,960
-	-	3,630	12,010	14,775	55,509
-	-	-	-	-	436,288
157,697	-	-	-	591,776	1,488,351
123,155	-	-	-	58,057	181,212
-	56,503	-	-	76,711	200,068
<u>280,852</u>	<u>56,503</u>	<u>3,630</u>	<u>417,049</u>	<u>1,422,994</u>	<u>5,294,505</u>
-	-	-	-	3,664	998,579
-	-	-	-	7,331	952,270
-	-	-	-	24,729	630,143
-	-	-	-	28,055	738,954
-	-	-	-	30,633	308,085
-	-	-	761,863	-	833,084
<u>1,749,575</u>	<u>39,772</u>	<u>153,940</u>	<u>-</u>	<u>1,055,597</u>	<u>2,998,884</u>
<u>1,749,575</u>	<u>39,772</u>	<u>153,940</u>	<u>761,863</u>	<u>1,150,009</u>	<u>7,459,999</u>
<u>(1,468,723)</u>	<u>16,731</u>	<u>(150,310)</u>	<u>(344,814)</u>	<u>272,985</u>	<u>(2,165,494)</u>
-	-	-	2,450,000	-	2,950,000
-	-	-	-	-	(13,000)
1,681,692	255,132	710,000	283,397	164,693	3,406,510
-	-	-	(2,052,995)	(738,078)	(3,064,068)
<u>1,681,692</u>	<u>255,132</u>	<u>710,000</u>	<u>680,402</u>	<u>(573,385)</u>	<u>3,279,442</u>
212,969	271,863	559,690	335,588	(300,400)	1,113,948
(163,680)	(271,863)	-	741,050	692,632	2,027,711
<u>\$ 49,289</u>	<u>\$ -</u>	<u>\$ 559,690</u>	<u>\$ 1,076,638</u>	<u>\$ 392,232</u>	<u>\$ 3,141,659</u>
\$ -	\$ -	\$ -	\$ 1,076,638	\$ -	\$ 1,076,638
-	-	-	-	-	577,537
-	-	-	-	483,475	969,748
49,289	-	559,690	-	(91,243)	517,736
<u>\$ 49,289</u>	<u>\$ -</u>	<u>\$ 559,690</u>	<u>\$ 1,076,638</u>	<u>\$ 392,232</u>	<u>\$ 3,141,659</u>

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, 2006

Total Governmental Funds Cash Balance (page 19) \$ 3,141,659

**Amounts Reported for Governmental Activities in the
 Statement of Activities and Net Assets are different because:**

None -

Cash Basis Net Assets of Governmental Activities (page 17) \$ 3,141,659

Net Change in Cash Balances (page 19) \$ 1,113,948

**Amounts Reported for Governmental Activities in the
 Statements of Activities and Net Assets are different because:**

None -

Change in Cash Balance of Governmental Activities (page 17) \$ 1,113,948

See notes to financial statements.

City of Manchester
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water Utility	Sewer Utility	Total
Operating Receipts:			
Use of Money and Property	\$ 11,550	\$ 9,035	\$ 20,585
Charges for Service	517,349	521,937	1,039,286
Miscellaneous	-	1,000	1,000
Total Operating Receipts	<u>528,899</u>	<u>531,972</u>	<u>1,060,871</u>
Operating Disbursements:			
Governmental Activities:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Business Type Activities	<u>490,279</u>	<u>426,717</u>	<u>916,996</u>
Total Operating Disbursements	<u>490,279</u>	<u>426,717</u>	<u>916,996</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>38,620</u>	<u>105,255</u>	<u>143,875</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>38,620</u>	<u>105,255</u>	<u>143,875</u>
Other Financing Sources (Uses):			
Interfund Loans	-	13,000	13,000
Operating Transfers In	-	9,000	9,000
Operating Transfers Out	<u>(133,932)</u>	<u>(217,510)</u>	<u>(351,442)</u>
Total Other Financing Sources (Uses)	<u>(133,932)</u>	<u>(195,510)</u>	<u>(329,442)</u>
Net Change in Cash Balances	(95,312)	(90,255)	(185,567)
Cash Balances Beginning of Year	<u>691,279</u>	<u>482,616</u>	<u>1,173,895</u>
Cash Balances End of Year	<u>\$ 595,967</u>	<u>\$ 392,361</u>	<u>\$ 988,328</u>
Cash Basis Funds Balances:			
Reserved for Debt Service	\$ -	\$ -	\$ -
Unreserved	<u>595,967</u>	<u>392,361</u>	<u>988,328</u>
Total Cash Basis Fund Balance	<u>\$ 595,967</u>	<u>\$ 392,361</u>	<u>\$ 988,328</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, 2006

Total Enterprise Funds Cash Balance (page 22)	\$ 988,328
Amounts Reported for Business Type Activities in the Statement of Activities and Net Assets are different because:	
None	<u>-</u>
Cash Basis Net Assets of Business Type Activities (page 17)	<u>\$ 988,328</u>
Net Change in Cash Balances (page 22)	\$ (185,567)
Amounts Reported for Business Type Activities in the Statements of Activities and Net Assets are different because:	
None	<u>-</u>
Change in Cash Balance of Business Type Activities (page 17)	<u>\$ (185,567)</u>

See notes to financial statements.

City of Manchester

Notes to Financial Statements

June 30, 2006

(1) Summary of 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 and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. 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 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 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 Community Foundation
- Delaware County Softball Commission
- Facilities Management Committee
- Eastern Iowa Regional Housing Authority Commission
- Eastern Iowa Clandestine Lab

(1) **Summary of Significant Accounting Policies (continued)**

B. Basis of Presentation

Government-wide Financial Statement - 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 service.

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

Restricted net assets result when constraints placed on net asset 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.

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.

(1) Summary of Significant Accounting Policies (continued)

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 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 Subdivision Improvements 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 Sewer Improvements Fund is used to account for resources use in the acquisition or construction of major capital facilities and capital assets as it relates to the sewer construction projects in the City.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

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 waste water treatment and sanitary sewer system.

C. 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

(1) Summary of Significant Accounting Policies (continued)

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in the general government and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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.

(3) Notes Receivable

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

Note Receivable, ABCM Corporation, due in monthly installments of \$167, beginning April 1, 2006 through March 1, 2011. The note bears no interest and is unsecured. \$ 9,500

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 dated January 20, 2004. \$ 4,890

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. \$ 4,000

(4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and an Iowa Department of Natural Resources note are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Principal	Interest	Principal	Interest
	2007	\$ 600,000	\$ 130,445	\$ 35,929
2008	365,000	112,895	58,291	64,177
2009	370,000	100,600	121,739	59,570
2010	385,000	80,293	122,727	51,734
2011	395,000	68,898	123,777	43,837
2012	415,000	61,725	124,885	35,935
2013	420,000	46,645	126,070	27,848
2014	445,000	31,060	105,500	20,070
2015	310,000	14,595	105,500	13,222
2016	-	-	105,500	6,381
2017	-	-	21,500	618
Total	\$ 3,705,000	\$ 647,156	\$ 1,051,418	\$ 390,190

Year Ending June 30,	Iowa Department of Natural Resources Note Payable		Total	
	Principal	Interest	Principal	Interest
	2007	\$ 13,569	\$ -	\$ 649,498
2008	4,362	-	427,653	177,072
2009	-	-	491,739	160,170
2010	-	-	507,727	132,027
2011	-	-	518,777	112,735
2012	-	-	539,885	97,660
2013	-	-	546,070	74,493
2014	-	-	550,500	51,130
2015	-	-	415,500	27,817
2016	-	-	105,500	6,381
2017	-	-	\$ 21,500	618
Total	\$ 17,931	\$ -	\$ 4,774,349	\$ 1,037,346

(4) Bonds and Notes Payable (continued)

The Code of Iowa requires 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 Special Revenue, 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.

The City has entered into a five year promissory note with the Iowa Department of Natural Resources for reimbursement of the solid waste alternatives program. The total loan amount is \$87,843 of which \$20,000 is a forgivable loan and \$67,843 is a zero interest loan. As of June 30, 2006 the City has been advanced \$21,323. The City was required to begin quarterly principal payments of \$3,392 on April 15, 2006 prior to the funds being fully advanced by the Iowa Department of Natural Resources.

(5) 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$91,746, \$90,512 and \$87,010, respectively, equal to the required contributions for each year.

(6) 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.

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. Upon retirement or death, disabled employees who have met other specific criteria may be paid sick leave at one-fourth of the then effective hourly rate for that employee.

The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, Special Revenue Funds, and Enterprise Funds, is as follows:

(6) Compensated Absences (continued)

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 84,017
Sick leave	<u>397,173</u>
Total	<u>\$481,190</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(7) 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 five year lease agreement dated May 10, 2004 to lease a parking lot on West Main Street to Hardee's Food Systems, Inc. No lease payments are required, but Hardee's Food Systems Inc. has agreed to resurface and landscape the area.
3. The City of Manchester has entered into a lease agreement dated May 6, 1991 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 Regional Medical Center of Northeast Iowa and Delaware County for \$1. The Regional Medical Center 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.

(7) 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 percent 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.
13. The City of Manchester is a party to an operating lease with Silver Eagle Harley-Davidson/Buell Inc., which runs from April 1, 2006 through December 31, 2006. The lease covers the use of a 2006 Harley-Davidson Police motorcycle by the Manchester Police Department for police and related activities. The City is required to pay \$1,500 along with maintenance and insurance.
14. The City of Manchester has entered into a lease agreement commencing June 5, 2006 with Iowa RSA No. 12 Limited Partnership for attachment locations upon the water tower at the intersection of East Prospect and Williams Street and ground space at the site for cellular common carrier mobile radio base operations. There is an option to lease for a term of 18 months. A \$3,000 payment was paid at the signing of the lease. The tenant has exercised the option. The initial lease term will be five years at a base rent of \$1,000 per month due on the first day of each month beginning July 1, 2006.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to:	Transfer from:	Amount
General	Special Revenue:	
	Employee Benefit Fund	\$ 298,674
	COPS Program	12,922
		<u>311,596</u>
Special Revenue:		
Fire Truck Reserve	General Fund	1,523
Holiday Decoration Replacement	General Fund	500
Bikeway/Walkway Project	Debt Service	134,051
	Capital Projects:	
	Street Improvements	20,979
		<u>155,030</u>
Capital Projects:		
Street Projects	Debt Service	1,038,495
	Enterprise:	
	Water Utility	133,932
	Sewer Utility	121,085
	Special Revenue:	
	Street Improvement Fund	63,739
	Road Use Tax	75,000
	Local Option	249,441
		<u>1,681,692</u>
Subdivision Improvements	Debt Service	170,449
	Capital Projects:	
	Street Improvements	84,683
		<u>255,132</u>
Sewer Improvements	Debt Service	710,000
Street Improvement Fund	Capital Projects:	
	Quaker Mill Drive Project	7,640
Enterprise Funds:		
Sewer Replacement	Enterprise Funds:	
	Sewer Utility	9,000
Debt Service	Special Revenue:	
	Tax Increment Financing	195,972
	Enterprise Fund:	
	Sewer Utility	87,425
		<u>283,397</u>
		<u>\$ 3,415,510</u>

(8) Interfund Transfers (continued)

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$54,303 during the year ended June 30, 2006.

(10) 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 \$762,396 is outstanding at June 30, 2006. The bonds and related interest are payable solely by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(11) Interfund Loans

The City has the following interfund loans at June 30, 2006:

Special Revenue Fund, Tax Increment Financing from Enterprise Fund, Airport Improvement Project at 8.00% per annum	\$31,365
Special Revenue Fund, Tax Increment Financing from Enterprise Fund, Hughes Project at 5.00% per annum	27,727
Special Revenue Fund, Tax Increment Financing from Enterprise Fund, Recreation Center Project at 5.00% per annum	<u>42,119</u>
	<u>\$101,211</u>

(12) Economic Development Loans

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, 2006, \$301,492 has been advanced on the loan agreement and the loan has been extended for another five years. The loan is secured by real estate.

The City has granted a corporation a non-interest bearing loan agreement in the amount of \$240,800 to expand its manufacturing facilities for the purpose of creating additional jobs in the City of Manchester. Principal is due in annual installments of \$12,040, beginning December 31, 2006 through December 31, 2025. The note is secured by a real estate mortgage dated June 22, 2006.

(13) Risk Management

The City 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

(13) Risk Management (continued)

from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(14) Deficit Balance

The Bikeway/Walkway Project and 2005 CDBG Housing fund had deficit fund balance amounts of \$366,416 and \$88,416 respectively at June 30, 2006. The deficit balance was a result of project costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of grant money or fund transfers.

(15) Construction in Progress

The City has entered into various construction contracts totaling approximately \$2,321,458. The unpaid contract balances as of June 30, 2006 totaled approximately \$493,349, which will be paid as work on the projects progress.

(16) 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.

(17) 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 that 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, 2006 was \$23,357.

The City's obligation under these agreements for fiscal year 2007 will not exceed \$14,500.00.

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.

(18) Subsequent Event

The City has been named a defendant in a class action petition filed in Iowa District Court for Delaware County on September 15, 2006. The petition is in regards to franchise fees that have been imposed on revenues for gas and electric utilities and cable television and other services to customers situated within the City. The City has taken action to discontinue the collection of franchise fees while the suit is pending. The amount of the potential liability could range from \$0 to \$600,000.

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, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
Receipts:			
Property Tax	\$ 1,826,532	\$ -	\$ -
Tax Increment Financing Collections	339,272	-	-
Other City Tax	735,313	-	-
Licenses and Permits	31,960	-	-
Use of Money and Property	55,509	20,585	-
Charges for Service	436,288	1,039,286	-
Intergovernmental	1,488,351	-	-
Special Assessments	181,212	-	-
Miscellaneous	200,068	1,000	-
Total Receipts	<u>5,294,505</u>	<u>1,060,871</u>	<u>-</u>
Disbursements:			
Public Safety	998,579	-	-
Public Works	952,270	-	-
Culture and Recreation	630,143	-	-
Community and Economic Development	738,954	-	-
General Government	308,085	-	-
Debt Service	833,084	-	-
Capital Projects	2,998,884	-	-
Business Type Activities	-	916,996	-
Total Disbursements	<u>7,459,999</u>	<u>916,996</u>	<u>-</u>
Excess of Receipts over Disbursements	(2,165,494)	143,875	-
Other Financing Sources, Net	3,279,442	(329,442)	-
Excess of Receipts and Other Financing Sources over Disbursements and Other Financing Uses	1,113,948	(185,567)	-
Balances, Beginning of Year	2,027,711	1,173,895	-
Balances, End of Year	<u>\$ 3,141,659</u>	<u>\$ 988,328</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
\$ 1,826,532	\$ 1,750,438	\$ 1,750,438	\$ 76,094
339,272	330,500	330,500	8,772
735,313	548,690	706,799	28,514
31,960	23,155	23,155	8,805
76,094	43,600	43,600	32,494
1,475,574	1,410,255	1,410,255	65,319
1,488,351	1,350,638	1,982,193	(493,842)
181,212	260,350	372,505	(191,293)
<u>201,068</u>	<u>168,380</u>	<u>168,380</u>	<u>32,688</u>
<u>6,355,376</u>	<u>5,886,006</u>	<u>6,787,825</u>	<u>(432,449)</u>
998,579	1,139,989	1,139,989	(141,410)
952,270	1,167,642	1,167,642	(215,372)
630,143	678,834	678,834	(48,691)
738,954	131,418	783,253	(44,299)
308,085	187,775	371,777	(63,692)
833,084	935,153	935,153	(102,069)
2,998,884	3,541,008	3,062,677	(63,793)
<u>916,996</u>	<u>1,454,403</u>	<u>1,454,403</u>	<u>(537,407)</u>
<u>8,376,995</u>	<u>9,236,222</u>	<u>9,593,728</u>	<u>(1,216,733)</u>
(2,021,619)	(3,350,216)	(2,805,903)	784,284
<u>2,950,000</u>	<u>3,196,801</u>	<u>2,937,928</u>	<u>12,072</u>
928,381	(153,415)	132,025	796,356
<u>3,201,606</u>	<u>2,715,410</u>	<u>3,201,569</u>	<u>37</u>
<u>\$ 4,129,987</u>	<u>\$ 2,561,995</u>	<u>\$ 3,333,594</u>	<u>\$ 796,393</u>

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the 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 \$1,202,517 and increased budgeted disbursements by \$917,077. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in the general government and business type activities functions.

City of Manchester
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue		
	Employee Benefit Fund	Local Option	Police Special Uses
Receipts:			
Property Tax	\$ 349,207	\$ -	\$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	665	331,803	-
Licenses and Permits	-	-	-
Use of Money and Property	2,635	1,816	86
Charges for Services	-	-	-
Intergovernmental	-	-	300
Special Assessments	-	-	-
Miscellaneous	29,200	-	5,536
Total Receipts	<u>381,707</u>	<u>333,619</u>	<u>5,922</u>
Disbursements:			
Operating:			
Public Safety	-	-	3,664
Public Works	-	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	30,633	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>30,633</u>	<u>-</u>	<u>3,664</u>
Excess (Deficiency) of Receipts over (under) Disbursements	<u>351,074</u>	<u>333,619</u>	<u>2,258</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Debt Proceeds	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	-	-	-
Operating Transfers Out	(298,674)	(249,441)	-
Total Other Financing Sources (Uses)	<u>(298,674)</u>	<u>(249,441)</u>	<u>-</u>
Net Change in Cash Balances	52,400	84,178	2,258
Cash Balances, Beginning of Year	150,529	52,088	7,203
Cash Balances, End of Year	<u>\$ 202,929</u>	<u>\$ 136,266</u>	<u>\$ 9,461</u>
Cash Fund Balances			
Reserved:			
Debt Service	\$ -	\$ -	\$ -
Unreserved:			
General Fund	-	-	-
Special Revenues Fund	202,929	-	9,461
Capital Projects Fund	-	136,266	-
Total Cash Basis Fund Balances	<u>\$ 202,929</u>	<u>\$ 136,266</u>	<u>\$ 9,461</u>

See accompanying independent auditor's report.

Airport Fly-In	Tirrill Trust	COPS Program	Police Canine Program	Park Gift & Trust	Park Improvement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
26	51	11	59	373	450
-	-	-	-	-	-
-	-	-	-	-	-
3,958	15,758	4,000	-	3,421	230
<u>3,984</u>	<u>15,809</u>	<u>4,011</u>	<u>59</u>	<u>3,794</u>	<u>680</u>
-	-	-	-	-	-
7,272	-	-	-	-	-
-	14,200	-	-	1,264	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>7,272</u>	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>1,264</u>	<u>-</u>
(3,288)	1,609	4,011	59	2,530	680
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(12,922)	-	-	-
-	-	(12,922)	-	-	-
(3,288)	1,609	(8,911)	59	2,530	680
5,450	2,737	8,911	5,083	19,382	20,617
<u>\$ 2,162</u>	<u>\$ 4,346</u>	<u>\$ 0</u>	<u>\$ 5,142</u>	<u>\$ 21,912</u>	<u>\$ 21,297</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
2,162	4,346	-	5,142	21,912	21,297
-	-	-	-	-	-
<u>\$ 2,162</u>	<u>\$ 4,346</u>	<u>\$ -</u>	<u>\$ 5,142</u>	<u>\$ 21,912</u>	<u>\$ 21,297</u>

City of Manchester
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue		
	Sports Complex	Health	Fire Truck Reserve
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Licenses and Permits	-	-	-
Use of Money and Property	1	-	3,420
Charges for Services	-	-	-
Intergovernmental	-	-	-
Special Assessments	-	-	-
Miscellaneous	977	-	1,025
Total Receipts	<u>978</u>	<u>-</u>	<u>4,445</u>
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	-	-
Culture and Recreation	977	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Total Disbursements	<u>977</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Receipts over (under) Disbursements	<u>1</u>	<u>-</u>	<u>4,445</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Debt Proceeds	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	-	-	1,523
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,523</u>
Net Change in Cash Balances	1	-	5,968
Cash Balances, Beginning of Year	5,949	5	129,067
Cash Balances, End of Year	<u>\$ 5,950</u>	<u>\$ 5</u>	<u>\$ 135,035</u>
Cash Fund Balances			
Reserved:			
Debt Service	\$ -	\$ -	\$ -
Unreserved:			
General Fund	-	-	-
Special Revenues Fund	5,950	5	135,035
Capital Projects Fund	-	-	-
Total Cash Basis Fund Balances	<u>\$ 5,950</u>	<u>\$ 5</u>	<u>\$ 135,035</u>

See accompanying independent auditor's report.

<u>Fire Capital Growth Improvement</u>	<u>Rescue Squad Replacement</u>	<u>Housing Acquisition/ Demolition Project</u>	<u>Lorna Stewart Trust</u>	<u>Holiday Decoration Replacement</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
28	527	296	127	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>28</u>	<u>527</u>	<u>296</u>	<u>127</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	821
-	-	28,055	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	<u>28,055</u>	-	<u>821</u>
<u>28</u>	<u>527</u>	<u>(27,759)</u>	<u>127</u>	<u>(821)</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	500
-	-	-	-	-
-	-	-	-	<u>500</u>
<u>28</u>	<u>527</u>	<u>(27,759)</u>	<u>127</u>	<u>(321)</u>
<u>2,302</u>	<u>24,301</u>	<u>39,030</u>	<u>4,369</u>	<u>1,424</u>
<u>\$ 2,330</u>	<u>\$ 24,828</u>	<u>\$ 11,271</u>	<u>\$ 4,496</u>	<u>\$ 1,103</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
2,330	24,828	11,271	4,496	1,103
-	-	-	-	-
<u>\$ 2,330</u>	<u>\$ 24,828</u>	<u>\$ 11,271</u>	<u>\$ 4,496</u>	<u>\$ 1,103</u>

City of Manchester
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue	
	Library Gift and Trust	Economic Development Revolving Fund
Receipts:		
Property Tax	\$ -	\$ -
Tax Increment Financing Collections	-	-
Other City Tax	-	-
Licenses and Permits	-	-
Use of Money and Property	525	1,015
Charges for Services	-	-
Intergovernmental	6,764	-
Special Assessments	-	-
Miscellaneous	5,179	-
Total Receipts	12,468	1,015
Disbursements:		
Operating:		
Public Safety	-	-
Public Works	-	-
Culture and Recreation	7,467	-
Community and Economic Development	-	-
General Government	-	-
Debt Service	-	-
Capital Projects	-	-
Total Disbursements	7,467	-
Excess (Deficiency) of Receipts over (under) Disbursements	5,001	1,015
Other Financing Sources (Uses):		
Sale of Capital Assets	-	-
Debt Proceeds	-	-
Interfund Loans	-	-
Operating Transfers In	-	-
Operating Transfers Out	-	-
Total Other Financing Sources (Uses)	-	-
Net Change in Cash Balances	5,001	1,015
Cash Balances, Beginning of Year	26,207	46,752
Cash Balances, End of Year	\$ 31,208	\$ 47,767
Cash Fund Balances		
Reserved:		
Debt Service	\$ -	\$ -
Unreserved:		
General Fund	-	-
Special Revenues Fund	31,208	-
Capital Projects Fund	-	47,767
Total Cash Basis Fund Balances	\$ 31,208	\$ 47,767

See accompanying independent auditor's report.

Capital Projects

Downtown Incentive Program	2001 CDBG - Home Funds	2002 CDBG Housing	2005 CDBG Grant	Bikeway Walkway Project
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,862	-	-	-	-
-	-	284,462	232,614	-
-	-	-	-	-
5,927	-	-	-	-
<u>7,789</u>	<u>-</u>	<u>284,462</u>	<u>232,614</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
138,475	-	47,458	321,030	480,439
<u>138,475</u>	<u>-</u>	<u>47,458</u>	<u>321,030</u>	<u>480,439</u>
(130,686)	-	237,004	(88,416)	(480,439)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	155,030
-	-	-	-	-
-	-	-	-	155,030
(130,686)	-	237,004	(88,416)	(325,409)
177,346	5,329	(224,392)	-	(41,007)
<u>\$ 46,660</u>	<u>\$ 5,329</u>	<u>\$ 12,612</u>	<u>\$ (88,416)</u>	<u>\$ (366,416)</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
46,660	5,329	12,612	(88,416)	(366,416)
<u>\$ 46,660</u>	<u>\$ 5,329</u>	<u>\$ 12,612</u>	<u>\$ (88,416)</u>	<u>\$ (366,416)</u>

City of Manchester
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Capital Projects		
	Quaker Mill Drive Project	Street Improvement Fund	FEMA Property Acquisition
Receipts:			
Property Tax	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	-	-
Other City Tax	-	-	-
Licenses and Permits	-	-	-
Use of Money and Property	-	499	-
Charges for Services	-	-	-
Intergovernmental	-	-	67,636
Special Assessments	-	58,057	-
Miscellaneous	-	-	1,500
Total Receipts	<u>-</u>	<u>58,556</u>	<u>69,136</u>
Disbursements:			
Operating:			
Public Safety	-	-	-
Public Works	-	59	-
Culture and Recreation	-	-	-
Community and Economic Development	-	-	-
General Government	-	-	-
Debt Service	-	-	-
Capital Projects	-	-	68,195
Total Disbursements	<u>-</u>	<u>59</u>	<u>68,195</u>
Excess (Deficiency) of Receipts over (under) Disbursements	<u>-</u>	<u>58,497</u>	<u>941</u>
Other Financing Sources (Uses):			
Sale of Capital Assets	-	-	-
Debt Proceeds	-	-	-
Interfund Loans	-	-	-
Operating Transfers In	-	7,640	-
Operating Transfers Out	(7,640)	(169,401)	-
Total Other Financing Sources (Uses)	<u>(7,640)</u>	<u>(161,761)</u>	<u>-</u>
Net Change in Cash Balances	(7,640)	(103,264)	941
Cash Balances, Beginning of Year	7,640	103,275	917
Cash Balances, End of Year	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 1,858</u>
Cash Fund Balances			
Reserved:			
Debt Service	\$ -	\$ -	\$ -
Unreserved:			
General Fund	-	-	-
Special Revenues Fund	-	-	-
Capital Projects Fund	-	11	1,858
Total Cash Basis Fund Balances	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 1,858</u>

See accompanying independent auditor's report.

Capital Projects - Levied	Total
\$ -	\$ 349,207
-	-
-	332,468
-	-
968	14,775
-	-
-	591,776
-	58,057
-	76,711
<u>968</u>	<u>1,422,994</u>
-	3,664
-	7,331
-	24,729
-	28,055
-	30,633
-	-
-	<u>1,055,597</u>
-	<u>1,150,009</u>
<u>968</u>	<u>272,985</u>
-	-
-	-
-	-
-	164,693
-	<u>(738,078)</u>
-	<u>(573,385)</u>
968	(300,400)
<u>112,118</u>	<u>692,632</u>
<u>\$ 113,086</u>	<u>\$ 392,232</u>
\$ -	\$ -
-	-
-	483,475
<u>113,086</u>	<u>(91,243)</u>
<u>\$ 113,086</u>	<u>\$ 392,232</u>

City of Manchester
Schedule of Indebtedness
Year ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Essential Corporate Purpose	July 1, 2004	2.00 - 4.10%	\$ 2,375,000
Essential Corporate Purpose	November 1, 2005	3.25 - 3.65%	<u>2,450,000</u>
Total			<u><u>\$ 4,825,000</u></u>
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	June 1, 1995	6.75%	\$ 235,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	July 20, 1995	4.00%	225,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	March 2, 2005	5.75%	430,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	November 8, 2002	6.00%	155,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	February 1, 2006	7.00%	<u>500,000</u>
Total			<u><u>\$ 1,545,000</u></u>
Small Business Administration	June 15, 1991	4.00%	<u><u>\$ 180,000</u></u>
Iowa Department of Natural Resources - Solid Waste Alternatives Program	February 10, 2006	0.00%	<u><u>\$ 87,843</u></u>

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 1,875,000	\$ -	\$ 470,000	\$ 1,405,000	\$ 58,345
-	2,450,000	150,000	2,300,000	51,033
<u>\$ 1,875,000</u>	<u>\$ 2,450,000</u>	<u>\$ 620,000</u>	<u>\$ 3,705,000</u>	<u>\$ 109,378</u>
\$ 28,671	\$ -	\$ 28,671	\$ -	\$ 970
17,833	-	17,833	-	358
430,000	-	-	430,000	24,725
135,018	-	13,600	121,418	7,901
-	500,000	-	500,000	11,507
<u>\$ 611,522</u>	<u>\$ 500,000</u>	<u>\$ 60,104</u>	<u>\$ 1,051,418</u>	<u>\$ 45,461</u>
<u>\$ 11,922</u>	<u>\$ -</u>	<u>\$ 11,922</u>	<u>\$ -</u>	<u>\$ 268</u>
<u>\$ -</u>	<u>\$ 21,323</u>	<u>\$ 3,392</u>	<u>\$ 17,931</u>	<u>\$ -</u>

City of Manchester
Bond and Note Maturities
June 30, 2006

General Obligation Bonds

Essential Corporate Purpose

Year Ending <u>June 30,</u>	<u>Issued July 1, 2004</u>		<u>Issued November 1, 2005</u>	
	Interest <u>Rate %</u>	<u>Amount</u>	Interest <u>Rate %</u>	<u>Amount</u>
2007	2.75	\$ 500,000	3.50	\$ 100,000
2008	3.10	120,000	3.50	245,000
2009	3.40	120,000	3.60	250,000
2010	3.70	125,000	3.60	260,000
2011	3.80	125,000	3.60	270,000
2012	3.90	135,000	3.60	280,000
2013	4.00	135,000	3.60	285,000
2014	4.10	145,000	3.60	300,000
2015		-	3.65	310,000
Total		<u>\$ 1,405,000</u>		<u>\$ 2,300,000</u>

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds

Year Ending <u>June 30,</u>	<u>Issued November 8, 2002</u>		<u>Issued March 2, 2005</u>	
	Interest <u>Rate %</u>	<u>Amount</u>	Interest <u>Rate %</u>	<u>Amount</u>
2007	6.00	\$ 14,429	5.75	\$ 21,500
2008	6.00	15,291	5.75	43,000
2009	6.00	16,239	5.75	43,000
2010	6.00	17,227	5.75	43,000
2011	6.00	18,277	5.75	43,000
2012	6.00	19,385	5.75	43,000
2013	6.00	20,570	5.75	43,000
2014		-	5.75	43,000
2015		-	5.75	43,000
2016		-	5.75	43,000
2017		-	5.75	21,500
Total		<u>\$ 121,418</u>		<u>\$ 430,000</u>

See accompanying independent auditor's report.

Iowa Department of Natural Resources - Solid Waste Alternatives Program

Year Ending <u>June 30,</u>	<u>Issued February 10, 2006</u>	
	Interest <u>Rate %</u>	<u>Amount</u>
2007	0.00	\$ 13,569
2008	0.00	4,362
 Total		<u><u>\$ 17,931</u></u>

<u>Issued February 1, 2006</u>	
Interest <u>Rate %</u>	<u>Amount</u>
	\$ -
	-
7.00	62,500
7.00	62,500
7.00	62,500
7.00	62,500
7.00	62,500
7.00	62,500
7.00	62,500
7.00	62,500
	-
	<u><u>\$ 500,000</u></u>

City of Manchester

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property Tax	\$ 1,826,532	\$ 1,747,287	\$ 1,735,565	\$ 1,608,259
Tax Increment Financing Collections	339,272	339,328	358,684	277,351
Other City Tax	735,313	389,850	326,991	395,266
Licenses and Permits	31,960	54,526	50,394	22,143
Uses of Money and Property	55,509	45,182	33,680	39,290
Charges for Services	436,288	1,349,935	1,078,970	1,107,135
Intergovernmental	1,488,351	379,864	387,586	437,389
Special Assessments	181,212	116,617	161,648	126,153
Miscellaneous	200,068	492,758	183,030	229,268
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 5,294,505</u>	<u>\$ 4,915,347</u>	<u>\$ 4,316,548</u>	<u>\$ 4,242,254</u>
Disbursements:				
Operating:				
Public Safety	\$ 998,579	\$ 928,904	\$ 950,095	\$ 877,367
Public Works	952,270	900,842	844,865	822,483
Health & Social Services	-	-	-	2,600
Culture and Recreation	630,143	551,069	587,519	592,072
Community and Economic Development	738,954	526,735	113,872	138,059
General Government	308,085	162,541	168,035	232,908
Debt Service	833,084	1,760,950	523,317	615,361
Capital Projects	2,998,884	2,626,556	1,560,389	1,009,515
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 7,459,999</u>	<u>\$ 7,457,597</u>	<u>\$ 4,748,092</u>	<u>\$ 4,290,365</u>

See accompanying independent auditor's report.

City of Manchester
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program			
	14.228	02-HSG-094	\$ 47,458
Home Investment Partnerships Program			
	14.239	05-HM-111	321,030
Federal Highway Administration, Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction			
	20.205	05-STPE-140	480,439
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grant			
	97.039	1518-0005	68,195
Direct:			
Department of Homeland Security:			
Emergency Preparedness and Response Directorate (FEMA)			
	97.044	EMW-2004-FG-1515	<u>32,400</u>
Total			<u>\$ 949,522</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Manchester and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.



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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, 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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 6, 2006. 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 U.S. generally accepted auditing standards 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 an opinion 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 II of the accompanying Schedule of Findings and Questioned Costs.

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 misstatements caused by error 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 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 II-A-06, II-B-06 and II-C-06 are material weaknesses.

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, non-compliance 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

non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.


Certified Public Accountants

December 6, 2006

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**



Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Manchester, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Manchester's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of the City of Manchester's management. Our responsibility is to express an opinion on the City of Manchester's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the City of Manchester's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Manchester's compliance with those requirements.

In our opinion, the City of Manchester complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Manchester is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Manchester's internal control over compliance with requirements that could have a direct and material effect on the major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Manchester's ability to administer the major federal programs in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-B-06 in the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 item III-B-06 is a material weakness.

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.


Certified Public Accountants

December 6, 2006

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 14.239 – Home Investment Partnerships Program and CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Manchester did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 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. A limited number of City personnel perform many of the accounting and financial functions.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures 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.

II-B-06 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.

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements: (continued)

REPORTABLE CONDITIONS: (continued)

II-C-06 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.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

CFDA Number 14.239: Home Investment Partnerships Program
Pass-through Agency Number: 05-HM-111
Federal Award Year: 2005
Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

CFDA Number 20.205: Highway Planning and Construction
Pass-through Agency Number: 05-STPE-140
Federal Award Year: 2005
Federal Highway Administration, Department of Transportation
Passed through the Iowa Department of Transportation

III-B-06 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures 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 accepted.

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted in the general government and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- IV-B-06 Questionable Disbursements – No disbursements of City money 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.
- IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Luke Ogden, son of Jeff Ogden, Council Member	Construction/pumping	\$ 25,461
Ben Ogden, son of Jeff Ogden, Council Member	2005 grant program reimbursements	1,690
Margie Recker, police dispatch employee, owner of Recker Signs	Sign lettering services	697
Linda Loney-Fangmann, police dispatch employee	Supplies for teaching first aid and CPR	168
Joann Kramer, spouse of Mayor Milt Kramer	Supplies for teaching camera class	210
James Wessels, Police Officer, Owner of Wessels Tuckpointing	Tuckpointing services	515

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting: (continued)IV-D-06 Business Transactions (continued)

Name, Title, and Business Connection	Transaction Description	Amount
Sue Broghammer, owner of Sue's Flower and Garden and daughter of Tony Broghammer, Council Member	Plants	\$1,348
Mike Corkery, Fireman, Owner of NE Iowa Telephone Service	Telephone services and supplies	4,410

The business transactions do not appear to represent conflicts of interest since they were entered into through competitive bidding and council approval.

IV-E-06 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.

IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. The publication of council minutes does not show a summary of all receipts as required by Chapter 372.13 of the Code of Iowa.

Recommendation – The City should comply with the reporting requirements of Chapter 372.13 of the Code of Iowa and show a summary of all receipts in the publication of council minutes.

Response – We will comply in the future with the publication requirements.

Conclusion – Response accepted.

IV-G-06 Deposits and Investments – The City's investment policy states that deposits in any financial institution shall not exceed the \$2,000,000 approved by the governing body of the City of Manchester, Iowa. This limit was exceeded at Community Savings Bank on June 20, 2006. A signor is listed on the signature card at First State Bank which is not in conformity with the depository resolution.

Recommendation – The City should follow its investments policy on deposit limits and update its investment policy to reflect the state sinking fund coverage. The City should update signature cards in conformity with its depository resolutions.

Response – We will review and revise our policies and update signature cards on file with depositories.

Conclusion – Response accepted.

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-H-06 Revenue Bonds and Notes – The City has a promissory note due to the Iowa Department of Natural Resources as of June 30, 2006 that was not reported to the Treasurer State of Iowa in accordance with Chapter 12.1 of the Code of Iowa.

Recommendation – The City should comply with the reporting requirements of Chapter 12.1 of the Code of Iowa and report all outstanding obligations including bonds, notes, certificates of participation, leases and anticipatory warrants as defined in Chapter 74.1 of the Code of Iowa.

Response – We will update the current reporting to the Treasurer State of Iowa and comply in the future with the reporting requirements.

Conclusion – Response accepted.

IV-I-06 Financial Condition – The Bikeway/Walkway Project and 2005 CDBG Grant Fund had deficit balances at June 30, 2006 of \$366,416 and \$88,416 respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return this fund to a sound financial position.

Response – The deficit was due to construction costs incurred prior to receipt of a state grant. The deficit will be eliminated upon receipt of grant money or fund transfers.

Conclusion – Response accepted.

City of Manchester

Staff

This audit was performed by:

Kimberly A. Bruess, CPA, Senior Auditor
Kathy S. Mersch, CPA, Assistant Auditor
Ann O. Manson, CPA, Assistant Auditor

William L. Bramley, CPA
Auditor in Charge