

City of Manchester

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

June 30, 2009

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**City of Manchester
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term expires</u>
Milt L. Kramer	Mayor	January 2010
Dean K. Sherman	Council Member	January 2012
Tony C. Broghammer	Council Member	January 2010
Daniel J. Stelken	Council Member	January 2012
Connie L. Behnken	Council Member	January 2012
Ron R. Struble	Council Member	January 2010
Timothy J. Vick	City Manager	June 2012
Erin Rempe	City Clerk	January 2012
Julie Schmitz	Treasurer-Deputy City Clerk	January 2012
James T. Peters	Attorney	January 2012

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, 2009, which collectively comprise the City's basic financial statements listed in the contents page of this report. These financial statements are the responsibility of the City of Manchester, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Manchester, Iowa as of June 30, 2009, 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 February 8, 2010, on our consideration of the City of Manchester, Iowa'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 15 and 33 through 35, 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, Iowa's basic financial statements. The basic financial statements for the four years ended June 30, 2008 (none of which are presented herein) were audited by other auditors whose report dated December 29, 2008 stated that they expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 8, 2010

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, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- The City's property tax revenues increased by \$394,645, or approximately 19%. Overall revenues increased by approximately \$4,776,339, or 80% from fiscal 2008 to fiscal 2009.
- Disbursements increased by 83%, or approximately \$6,877,272 from fiscal 2008 to fiscal 2009.
- The City's total cash basis net assets decreased by 24%, or approximately \$1,035,915 from June 30, 2008 to June 30, 2009.

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 additional details of various federal programs benefiting the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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, health and social service, 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:

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, street cleaning, storm/street drainage, airport, solid waste collection, snow removal, compost facility, local option tax, and equipment reserve.

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

Health and Social Services – This category includes contributions to organizations that provide assistance to families in need within the community.

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, local access cablevision and other general government.

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

Capital Projects - This category includes the Downtown Incentive Program, Housing Grant Projects, Bikeway/Walkway Construction, Subdivision Improvements, Street Project Fund, Wastewater Treatment Plant Improvements, and other capital projects.

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 cost internally among the City's various functions.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

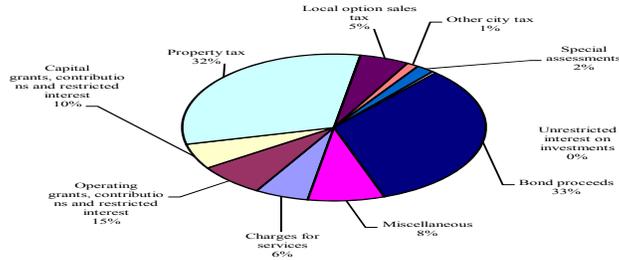
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2,957,704 to \$2,793,253.

MANAGEMENT'S DISCUSSION AND ANALYSIS

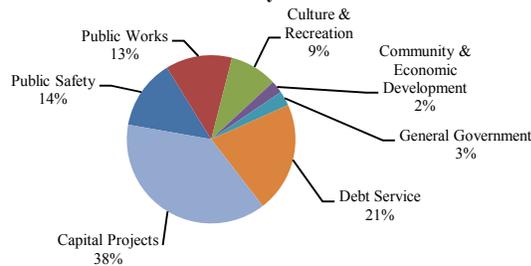
City of Manchester				
Change in Cash Basis Net Assets of Governmental Activities				
			Year ended June 30, 2009	Year ended June 30, 2008
Receipts and transfers:				
Program receipts				
	Charges for services		\$ 456,697	\$ 475,543
	Operating grants, contributions, and restricted interest		572,965	550,139
	Capital grants, contributions, and restricted interest		447,433	17,510
General receipts				
	Property tax		2,507,207	2,112,562
	Local option sales tax		418,075	438,026
	Other city tax		101,635	10,674
	Special assessments		152,715	197,318
	Unrestricted interest on investments		35,492	43,984
	Bond proceeds		2,623,840	1,610,000
	Miscellaneous		648,742	1,153,157
				-
	Interfund loans		(32,330)	(23,000)
	Transfers, net		86,852	149,086
Total receipts			8,019,323	6,734,999
Disbursements				
	Public Safety		1,097,889	1,016,739
	Public Works		1,049,184	969,377
	Culture and Recreation		746,814	637,416
	Community and Economic Development		192,906	524,084
	General Government		232,318	493,263
	Debt Service		1,732,730	904,345
	Capital Projects		3,131,933	2,227,133
Total disbursements			8,183,774	6,772,357
Increase/decrease in cash basis net assets			(164,451)	(37,358)
Cash basis net assets beginning of year			2,957,704	3,299,317
Prior period adjustment			-	(304,255)
Cash basis net assets end of year			\$ 2,793,253	\$ 2,957,704

MANAGEMENT'S DISCUSSION AND ANALYSIS

Receipts by Source



Disbursements by Function



The City's receipts including net other financing sources for governmental activities totaled \$8,019,323 for Fiscal 2009. The total cost of all programs and services was \$8,183,774. The net result was a deficit of \$164,451 for Fiscal 2009.

The City increased property tax rates for 2009 by 6.4%. With Residential Rollback, this increase resulted in an additional \$242,202 in property tax revenues.

The cost of all governmental activities this year was \$8,183,774 compared to \$6,772,357 last year. As shown in the Statement of Activities and Net Assets, the amount of property taxes ultimately utilized for these activities was only \$2,507,207 because some of the cost was paid by other city taxes, which include local option taxes primarily (\$418,075), and by individuals or entities including governments and organizations which directly benefited from the service (\$217,413). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$5,041,079 as follows: tax revenues specifically designated for use with only certain programs, bond proceeds, interest, transfers from other funds and general entitlements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Manchester		
Change in Cash Basis Net Assets of Business Activities		
	Year ended June 30, 2009	Year ended June 30, 2008
Receipts		
Program Receipts:		
Charges for service		
Water	\$ 462,796	\$ 477,597
Sewer	1,108,856	854,220
General Receipts:		
Special Assessments	560	7,096
Unrestricted Interest on Investments	22,836	42,081
Miscellaneous	210	45
Intergovernmental	392,761	
Interfund Loans	32,330	23,000
Debt Proceeds	4,221,040	341,071
Total receipts	\$ 6,241,389	\$ 1,745,110
Disbursements and transfers		
Water	994,781	452,593
Sewer	6,031,221	1,107,554
Transfers	86,852	149,086
Total disbursements and transfers	\$ 7,112,854	\$ 1,709,233
Increase/decrease in cash basis net assets	(871,465)	35,877
Cash basis net assets beginning of year	1,356,003	1,015,871
Prior Period Adjustment	-	304,255
Cash basis net assets end of year	\$ 484,538	\$ 1,356,003

Total business type activities receipts for the fiscal year were \$6,147,945 compared to \$1,745,110 last year. The cash balance decreased by \$871,465 from the prior year due primarily to the use of water fund reserves for the Well #7 Nitrate Reduction Capital Project. Total disbursements and transfers for the fiscal year were \$7,112,854, an increase of more than 100% over the prior year. This increase is, again, primarily due to an increase in expenditures associated with capital improvement projects, including the Wastewater Treatment Plant Upgrade Project and the Well #7 Nitrate Reduction Project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL GOVERNMENTAL FUND ANALYSIS

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of \$2,793,253, a decrease of \$164,451 from last year's total of \$2,957,704. The following are the major reasons for the change in fund balances from the prior year.

The General Fund cash balance increased by \$78,564 from the prior year to \$411,209 due to an increase in program receipts and the implementation of the Emergency Levy.

The Employee Benefit Fund cash balance decreased by \$91,963 from the prior year to \$249,661. The decrease is the result of utilization of cash reserves to offset the increased cost of employee benefits which include health and dental insurance.

The Tax Increment Fund cash balance increased by \$35,214 from the prior year to \$2,916. This increase was due primarily to bond proceeds received in July 2008 to cover expenditures from capital projects in the prior year.

The Street Equipment Reserve cash balance decreased by \$70,312 from the prior year to \$131,507. This decrease was due to the utilization of cash reserves to purchase a loader/backhoe and dump truck.

The Economic Development Revolving Loan Fund cash balance decreased by \$49,644 from the prior year to \$659. The decrease was the result of an economic development loan made to Lextron Animal Health, which will be repaid to the City over a ten year period.

The CDBG Housing Grant Fund cash balance increased by \$77,497 from the prior year to (\$152,507) due to receipt of grant proceeds.

The Bikeway/Walkway Project Fund cash balance decreased by \$99,402 from the prior year to (\$99,402). This decrease is attributable to expenditures for the Riverfront Walkway Project for which grant funds were received in October 2009 to cover these expenses.

The Street Projects Fund cash balance increased by \$707,179 from the prior year to \$630,364. The increase is attributable to grant and bond proceeds received during this fiscal year to cover expenditures related to the 2008 Street Project and the Schram Drive Project.

The FEMA Capital Project Fund was established to track revenues and expenditures related to flood repairs and the acquisition and demolition of flood damaged properties. The fund had an ending cash balance of (\$124,161). The City will received FEMA funds and CDBG funds to offset these expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Fire Department Expansion Fund cash balance decreased by \$705,526 from the prior year to \$0. The decrease was the result of completion of the expansion project.

The changes in the governmental funds as a whole are due primarily to the timing of capital projects and the funding for these projects. The construction season typically runs from April through October, and subsequently crosses over two fiscal years, as the City's fiscal year is July 1 through June 30. Therefore revenues may be received in one fiscal year but not spent until the next fiscal year, and vice versa.

INDIVIDUAL BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$514,784 to \$148,690, due to expenditures associated with a major capital improvement project, the Well #7 Nitrate Reduction Project.

The Sewer Fund cash balance decreased by \$356,681 to \$335,848, due primarily to expenditures related to the Wastewater Treatment Plant Improvement Project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Manchester amended its budget one time. The amendment was approved on May 26th, 2009. The amendment was needed, in large part, due to the following items: additional local option taxes; FEMA flood funding received; grants received from RISE, CDBG, USDA; additional special assessments; TIF bond refunding; bond proceeds;; reduction in employee benefits; flood expenses; snow removal expenses; Schram Park improvements; timing of capital projects; West end development; grant expenditures; transfers for sewer debt service fund and wastewater treatment plant project; Well #7 Project; and the radio read meter project. The additional revenues received by the City absorbed the additional expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$6,186,000 in bonds and other long-term debt, compared to approximately \$4,993,986 last year, as shown below. Additionally, the City had approximately \$4,221,040 in sewer revenue bonds at June 30, 2009.

City of Manchester		
Outstanding Debt at Year-End		
	June 30,	
	2009	2008
General obligation bonds	\$ 6,186,000	\$ 4,255,000
Urban renewal tax increment revenue bonds	-	738,986
State Revolving Fund Planning and Design Loan	4,221,040	341,071
Total	\$ 10,407,040	\$ 5,335,057

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 \$6,186,000 is significantly below its constitutional debt limit of \$12,742,995.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the fiscal year 2010 budget, the elected and appointed officials of the City of Manchester examined certain economic conditions to help determine revenue estimates and expenditure projections. Even during the current economic downturn, Manchester's economy has remained steady with few mandatory layoffs and no shutdowns.

Unemployment for Delaware County increased from one year ago. The current rate is 6.5% versus 5.3% in 2008. Despite the increase in unemployment, revenues tied to the economy remained steady. Local option sales tax receipts are projected to meet estimates.

The City's property tax rate will increase from \$15.60688 in Fiscal 2009 to \$15.88760 in Fiscal 2010. This is approximately a 2% increase for property owners in the City of Manchester. The majority of this increase was due to increasing Employee Benefit costs and additional Debt Service Levy for street projects in the City of Manchester.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE CITY' S FINANCIAL MANAGEMENT DEPARTMENT

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, 2009

	<u>Disbursements</u>	<u>Program receipts</u>		
		<u>Charges for service</u>	<u>Operating grants, contributions, and restricted interest</u>	<u>Capital grants, contributions, and restricted interest</u>
FUNCTIONS/PROGRAMS				
Governmental activities				
Public safety	\$ 1,097,889	\$ 3,130	\$ 36,071	\$ -
Public works	1,049,184	273,657	438,331	122,182
Culture and recreation	746,814	106,400	86,510	-
Community and economic development	192,906	72,416	5,960	325,251
General government	232,318	1,094	6,093	-
Debt service	1,732,730	-	-	-
Capital projects	3,131,933	-	-	-
Total governmental activities	<u>8,183,774</u>	<u>456,697</u>	<u>572,965</u>	<u>447,433</u>
Business type activities				
Water utility	994,781	462,796	-	-
Wastewater treatment	<u>6,031,221</u>	<u>1,108,856</u>	<u>-</u>	<u>392,761</u>
Total business type activities	<u>7,026,002</u>	<u>1,571,652</u>	<u>-</u>	<u>392,761</u>
Total primary government	<u>\$15,209,776</u>	<u>\$2,028,349</u>	<u>\$ 572,965</u>	<u>\$ 840,194</u>
GENERAL RECEIPTS				
Property tax levied for				
General purposes				
Insurance				
Employee benefits				
Tax increment financing				
Debt service				
Local option tax				
Other city tax				
Licenses and permits				
Special assessments				
Unrestricted interest in investments				
Bond proceeds, net of discount				
Miscellaneous				
Interfund loans				
Transfers in (out)				
Total general receipts and transfers				
Change in cash basis net assets				
NET ASSETS, beginning of year				
NET ASSETS, end of year				
CASH BASIS NET ASSETS				
Restricted				
Debt service				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements.

**Net (disbursements) receipts and
changes in cash basis net assets**

<u>Governmental activities</u>	<u>Business type activities</u>	<u>Total</u>
\$(1,058,688)	\$ —	\$ (1,058,688)
(215,014)	—	(215,014)
(553,904)	—	(553,904)
210,721	—	210,721
(225,131)	—	(225,131)
(1,732,730)	—	(1,732,730)
<u>(3,131,933)</u>	<u>—</u>	<u>(3,131,933)</u>
<u>(6,706,679)</u>	<u>—</u>	<u>(6,706,679)</u>
—	(531,985)	(531,985)
<u>—</u>	<u>(4,529,604)</u>	<u>(4,529,604)</u>
<u>—</u>	<u>(5,061,589)</u>	<u>(5,061,589)</u>
<u>(6,706,679)</u>	<u>(5,061,589)</u>	<u>(11,768,268)</u>
1,111,997	—	1,111,997
84,195	—	84,195
318,249	—	318,249
366,070	—	366,070
626,696	—	626,696
418,075	—	418,075
101,635	—	101,635
64,698	—	64,698
152,715	560	153,275
35,492	22,836	58,328
2,623,840	4,221,040	6,844,880
584,044	210	584,254
(32,330)	32,330	—
<u>86,852</u>	<u>(86,852)</u>	<u>—</u>
<u>6,542,228</u>	<u>4,190,124</u>	<u>10,732,352</u>
<u>(164,451)</u>	<u>(871,465)</u>	<u>(1,035,916)</u>
<u>2,957,704</u>	<u>1,356,003</u>	<u>4,313,707</u>
<u>\$ 2,793,253</u>	<u>\$ 484,538</u>	<u>\$ 3,277,791</u>
\$ 465	\$ —	\$ 465
<u>2,792,788</u>	<u>484,538</u>	<u>3,277,326</u>
<u>\$ 2,793,253</u>	<u>\$ 484,538</u>	<u>\$ 3,277,791</u>

City of Manchester
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the year ended June 30, 2009

	Special revenue		
General	Tax increment financing	Local option tax	Franchise fees gas and electric
RECEIPTS			
Property taxes	\$1,196,192	\$ —	\$ —
Tax increment financing collections	—	366,070	—
Other city tax	100,239	—	418,075
Licenses and permits	64,698	—	—
Use of money and property	13,572	—	2,207
Charges for services	446,395	—	—
Intergovernmental	302,008	—	—
Special assessments	—	—	—
Miscellaneous	151,402	18,113	—
Total receipts	<u>2,274,506</u>	<u>384,183</u>	<u>420,282</u>
DISBURSEMENTS			
Operating			
Public safety	1,068,529	—	—
Public works	548,181	—	—
Culture and recreation	634,850	—	—
Community and economic development	128,915	6,387	—
General government	175,635	—	—
Debt service	—	747,203	—
Capital projects	—	1,033,408	—
Total disbursements	<u>2,556,110</u>	<u>1,786,998</u>	<u>—</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(281,604)</u>	<u>(1,402,815)</u>	<u>420,282</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds	—	—	—
Bond discount	—	—	—
Interfund loans	—	(47,330)	—
Operating transfers in	471,632	1,723,873	—
Operating transfers out	(111,464)	(238,514)	—
Total other financing sources (uses)	<u>360,168</u>	<u>1,438,029</u>	<u>(375,000)</u>
Net change in cash balances	78,564	35,214	45,282
CASH BALANCES (DEFICIT), beginning of year	<u>332,645</u>	<u>(32,298)</u>	<u>308,578</u>
CASH BALANCES, end of year	<u>\$ 411,209</u>	<u>\$ 2,916</u>	<u>\$ 353,860</u>
CASH BASIS FUND BALANCES (DEFICIT)			
Reserved			
Debt service	\$ —	\$ —	\$ —
Unreserved			
General fund	411,209	—	—
Special revenue fund	—	2,916	353,860
Capital project fund	—	—	—
Total cash basis fund balances	<u>\$ 411,209</u>	<u>\$ 2,916</u>	<u>\$ 353,860</u>

See Notes to Financial Statements.

<u>Capital Projects</u>		<u>Other nonmajor governmental funds</u>	<u>Total</u>
<u>Street projects</u>	<u>Debt service</u>		
\$ -	\$ 626,696	\$ 318,249	\$2,141,137
-	-	-	366,070
-	902	494	519,710
-	-	-	64,698
-	5,893	15,969	53,667
-	-	10,302	456,697
113,914	-	860,538	1,276,460
74,145	-	78,570	152,715
-	-	140,292	309,807
<u>188,059</u>	<u>633,491</u>	<u>1,424,414</u>	<u>5,340,961</u>
-	-	29,360	1,097,889
-	-	501,003	1,049,184
-	-	111,964	746,814
-	-	57,604	192,906
-	-	56,683	232,318
-	985,527	-	1,732,730
<u>749,251</u>	<u>-</u>	<u>1,349,274</u>	<u>3,131,933</u>
<u>749,251</u>	<u>985,527</u>	<u>2,105,888</u>	<u>8,183,774</u>
<u>(561,192)</u>	<u>(352,036)</u>	<u>(681,474)</u>	<u>(2,842,813)</u>
-	2,645,000	-	2,645,000
-	(21,160)	-	(21,160)
-	-	15,000	(32,330)
1,268,371	325,366	64,524	3,853,766
-	(2,597,244)	(444,692)	(3,766,914)
<u>1,268,371</u>	<u>351,962</u>	<u>(365,168)</u>	<u>2,678,362</u>
707,179	(74)	(1,046,642)	(164,451)
<u>(76,815)</u>	<u>539</u>	<u>1,838,182</u>	<u>2,957,704</u>
\$ <u>630,364</u>	\$ <u>465</u>	\$ <u>791,540</u>	\$ <u>2,793,253</u>
\$ -	\$ 465	\$ -	\$ 465
-	-	-	411,209
-	-	1,000,563	1,960,238
<u>630,364</u>	<u>-</u>	<u>(209,023)</u>	<u>421,341</u>
\$ <u>630,364</u>	\$ <u>465</u>	\$ <u>791,540</u>	\$ <u>2,793,253</u>

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, 2009

	Enterprise Funds		
	Water Utility	Sewer Utility	Total
OPERATING RECEIPTS			
Charges for services	\$ 462,796	\$1,108,856	\$1,571,652
Special assessments	560	-	560
Miscellaneous	-	210	210
Total operating receipts	<u>463,356</u>	<u>1,109,066</u>	<u>1,572,422</u>
OPERATING DISBURSEMENTS			
Business type activities	<u>994,781</u>	<u>524,699</u>	<u>1,519,480</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(531,425)</u>	<u>584,367</u>	<u>52,942</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Interest on investments	16,641	6,195	22,836
Intergovernmental	-	392,761	392,761
Revenue bond proceeds	-	4,221,040	4,221,040
Interfund loans	-	32,330	32,330
Capital projects	-	(5,026,418)	(5,026,418)
Debt service	-	(480,104)	(480,104)
Net nonoperating receipts (disbursements)	<u>16,641</u>	<u>(854,196)</u>	<u>(837,555)</u>
Excess (disbursements)	<u>(514,784)</u>	<u>(269,829)</u>	<u>(784,613)</u>
TRANSFERS			
Operating transfers in	-	4,575,523	4,575,523
Operating transfers out	-	(4,662,375)	(4,662,375)
Transfers – net	-	(86,852)	(86,852)
Net change in cash balances	<u>(514,784)</u>	<u>(356,681)</u>	<u>(871,465)</u>
CASH BALANCE , beginning of year	<u>663,474</u>	<u>692,529</u>	<u>1,356,003</u>
CASH BALANCE , end of year	<u>\$ 148,690</u>	<u>\$ 335,848</u>	<u>\$ 484,538</u>
CASH BASIS FUND BALANCE , unreserved	<u>\$ 148,690</u>	<u>\$ 335,848</u>	<u>\$ 484,538</u>

See Notes to Financial Statements.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manchester, Iowa (the City) 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, economic development, and general government services. The City also provides water and sewer utilities for its citizens.

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
- Community Childcare of Manchester Iowa
- East Central Intergovernmental Association
- Foundation for the Future of Delaware County
- Manchester Good to Great

Basis of Presentation

Government-wide Financial Statement

The statement of activities and net assets—cash basis reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Government-wide Financial Statements (continued)

The statement of activities and net assets—cash basis 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 not meeting 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—cash basis 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:

General Fund

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 Fund is used to account for urban renewal projects financed by tax increment financing.

The Franchise Fees Gas and Electric Fund is used to account for fees imposed on revenues for gas and electric utilities to customers situated within the City. See note 15 for contingency disclosures regarding this fund.

Local Option Tax Fund is used to account for projects financed by local option sales tax receipts.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Fund Financial Statements (continued)

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.

Debt Service Fund

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.

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. accounting principles generally accepted in the United States of America.

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.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceed the amounts budgeted in the debt service function.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2009 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 has no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3 NOTES RECEIVABLE

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

ABC Corporation, due in monthly installments of \$167, beginning April 1, 2006 through March 1, 2011. The note bears no interest and is unsecured.	\$ 3,500
Bill Corcoran, due in annual installments of \$759, beginning May 1, 2009 through April 1, 2014. The note bears no interest and is unsecured.	3,667
Manchester Area Chamber of Commerce, due in annual installments of \$784, beginning May 1, 2008 through 2012. The note bears no interest and is unsecured.	2,352
Fred and Judy Vorwald, due in annual installments of \$2,000, beginning August 1, 2008 through 2012. The note bears no interest and is unsecured.	<u>8,000</u>
Total	<u>\$ 17,519</u>

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 4 BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and other debt are as follows:

Year ending June 30	General Obligation Bonds		State Revolving Fund Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 740,000	\$ 223,381	\$ 287,000	\$ 187,141	\$ 1,027,000	\$ 410,522
2011	761,000	203,549	296,000	111,495	1,057,000	315,044
2012	782,000	177,041	305,000	107,055	1,087,000	284,096
2013	798,000	149,088	314,000	102,480	1,112,000	251,568
2014	818,000	119,855	323,000	97,770	1,141,000	217,625
2015-2019	1,913,000	245,507	1,768,000	413,160	3,681,000	658,667
2020-2024	227,000	55,018	928,040	123,282	1,155,040	178,300
2025-2029	<u>147,000</u>	<u>11,397</u>	<u>—</u>	<u>—</u>	<u>147,000</u>	<u>11,397</u>
Total	<u>\$6,186,000</u>	<u>\$1,184,836</u>	<u>\$4,221,040</u>	<u>\$1,142,383</u>	<u>\$10,407,040</u>	<u>\$2,327,219</u>

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

During the year ended June 30, 2009, the City authorized the issuance of \$7,720,000 of State Revolving Revenue Bonds.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$4,221,040 of the bonds outstanding as of June 30, 2009. Proceeds from the bonds are providing financing for the costs of constructing improvements and extensions to the municipal sewer system of the City. The bonds are payable solely from the sewer customer net receipts and are payable through 2029 when complete. Annual principal and interest are expected to require less than 100 percent of net receipts. The total principal and interest outstanding to be paid on the notes as of June 30, 2009 was \$5,363,423. For the current year, principal and interest paid and total customer net receipts were \$42,535 and \$584,367, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to sewer revenue bond sinking accounts within the sewer fund for the purpose of making the bond principal and interest payments when due.
- (c) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account.

NOTE 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 4.10% of their annual covered salary and the City is required to contribute 6.35% 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, 2009, 2008 and 2007 were \$105,121, \$95,163, and \$89,318, respectively, equal to the required contributions for each year.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION AND RETIREMENT BENEFITS (continued)

The City makes available to each full-time or regular part-time employee, the opportunity to make tax exempt contributions under an approved 457 Deferred Compensation Plan. The employee's own tax exempt contribution will be utilized as a retirement fund. However, no monthly contribution to the plan can be less than \$50. The employee is responsible for the cost of administering the plan.

NOTE 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, 2009, primarily relating to the General Fund, Special Revenue Funds, and Enterprise Funds, is as follows:

<u>Type of benefit</u>	<u>Amount</u>
Vacation	\$ 87,000
Sick leave	<u>428,000</u>
Total	<u>\$ 515,000</u>

This liability has been computed based on rates of pay in effect as of June 30, 2009.

NOTE 7 LEASE AGREEMENTS

Lease agreements for the City of Manchester as of June 30, 2009 follow:

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.

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.

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.

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.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LEASE AGREEMENTS (continued)

The City of Manchester has entered into a three-year lease agreement with William Blakesley dated June 1, 2007 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.

The City of Manchester has entered into a three-year lease agreement with the Franklin Street Underground, dated January 1, 2004, to construct a handicapped ramp on the property. A \$1 lease payment was paid at the signing of the lease. Franklin Street Underground agrees to pay 100 percent of the required maintenance. This lease was renewed on January 1, 2008 for another three years.

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. The lease automatically renews on an annual basis unless a 60 day written notice is provided by either party.

The City of Manchester has entered into a fifty-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.

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.

The City of Manchester is a party to an operating lease with Silver Eagle Harley-Davidson/Buell Inc., which runs from April 1, 2009 through December 31, 2009. 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.

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. 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. The lease may be renewed four additional terms of five years each.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 8 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ <u>471,632</u>
Tax increment fund	Debt service fund	1,617,873
	Nonmajor governmental funds	<u>106,000</u>
		1,723,873
Debt service fund	Tax increment fund	238,514
	Sewer fund	<u>86,852</u>
		325,366
Street projects	Debt service fund	979,371
	Nonmajor governmental funds	<u>289,000</u>
		1,268,371
Nonmajor governmental	General fund	42,042
	Nonmajor governmental funds	<u>22,482</u>
		<u>64,524</u>
Total		<u>\$3,853,766</u>

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

NOTE 9 RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$46,248 during the year ended June 30, 2009.

NOTE 10 INTERFUND LOANS

The City has the following interfund loans at June 30, 2009:

Special Revenue Fund, Tax Increment Financing from Enterprise Fund, Recreation Center Project at 5.00% per annum	\$ <u>22,995</u>
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NOTE 11 ECONOMIC DEVELOPMENT LOANS

The City has granted a corporation a noninterest 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, 2011 unless the building is sold, leased, or otherwise transferred without prior written consent of the lender. As of June 30, 2009 \$301,492 has been advanced on the loan agreement.

The City has granted an individual an interest bearing loan agreement in the amount of \$28,000 to improve their subdivision. Principal is due in annual installments of \$2,800, plus interest that has accrued to that date, beginning July 1, 2007 through July 1, 2016. The annual interest rate is 7% and is secured by a real estate mortgage.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 11 ECONOMIC DEVELOPMENT LOANS (continued)

The City has granted a corporation an interest bearing loan agreement in the amount of \$50,000 to make proposed construction improvements to its lot in Manchester Business Park. Principal and interest is due in annual installments of \$5,566 beginning December 31, 2009 through December 31, 2018. The annual interest rate is 2% and secured by a real estate mortgage providing the City with a security interest in the land, building, and fixtures on the specified lot in the Manchester Business Park.

NOTE 12 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 from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13 DEFICIT BALANCE

The following funds had deficit balances at June 30, 2009:

CDBG Housing	\$ 152,507
Bikeway Walkway Project	55,091
FEMA Property Acquisition	<u>124,161</u>
	<u>\$ 331,759</u>

The deficit balances were a result of project or event costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of donations, grant money, loan proceeds, or fund transfers.

NOTE 14 CONSTRUCTION IN PROGRESS

The City has entered into various construction contracts totaling approximately \$8,832,981. The unpaid contract balances as of June 30, 2009 totaled approximately \$3,027,336, which will be paid as work on the projects progress.

NOTE 15 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.

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 \$500,000.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 16 DEVELOPMENT AGREEMENTS

The City has entered into a development agreement for an urban renewal project. The agreement requires the City to rebate portions of the incremental tax paid by the developer in exchange for certain infrastructure improvements by the developer. Obligations under the agreement are subject to annual appropriation by the City Council. The City made no payments under the agreement during the year ended June 30, 2009.

The City's obligation under this agreement would begin on June 1, 2010 and continue for five years and would not exceed \$70,550 in total.

This agreement is not a general obligation of the City. However, the amounts payable in the succeeding years are subject to the constitutional debt limitation of the City.

NOTE 17 TERMINATION BENEFITS

The City offered a voluntary early retirement plan to its employees. Eligible employees must have completed at least 10 consecutive years of full-time employment prior to December 31, 2007, must have reached age 55 by December 31, 2007, and must have resigned effective December 31, 2007. The application for early retirement was subject to approval by the City Council.

Early retirement benefits were equal to 25% of each day of earned, unused sick leave days, calculated as of the last day of employment prior to retirement. If the employee was covered by a City health insurance plan on the last day of employment prior to retirement, the City shall, upon employee request, contribute monthly toward the employee's continued participation in a health insurance plan offered by the City, not to exceed \$400 per month. Payments by the City shall cease upon the earliest of the following: (1) the employee fails to pay the premium balance, (2) the employee becomes deceased, or (3) the employee becomes eligible for Medicare.

Early retirement expenditures for the year ended June 30, 2009 for three employees totaled \$14,389. At June 30, 2009 the City had obligations to three employees for the health insurance portion of the early retirement plan with annual expenditures to be \$9,600 per year until the employee becomes ineligible as described above.

NOTE 18 OTHER POST EMPLOYMENT BENEFITS

Under Chapter 509A.13 of the Code of Iowa, employees who retire from City employment before age 65 are eligible to continue in the City's group health insurance plans up to age 65. Coverage must be continuous, that is the employee must elect the same type of coverage at retirement, and the retired employee must pay the full cost of the premium.

Plan membership at June 30, 2009:

Active employees	26
Retired employees	<u>6</u>
Total plan membership	<u>32</u>

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 19 SUBSEQUENT EVENTS

In July 2009, the City entered into an agreement with TeKippe Engineering P.C. to provide professional engineering services in connection with the design, construction, and administrative services for the 2010 Street Improvements Project (portions of Prospect Street, Millam Heights, Prospect Court) for \$140,000.

In July 2009, the City entered into an agreement with TeKippe Engineering P.C. to provide engineering services for the construction and design of an ion exchange nitrate reduction system in the amount of \$125,000.

In September 2009, the City entered into an agreement with Mathy Construction Company (d/b/a River City Paving of Dubuque, Iowa) for the construction and resurfacing of Main Street for \$267,332.

In October 2009, the City entered into a purchase agreement with Kevin and Deb Wieser to purchase real estate at 512 Williams Street for \$138,050.

The City has drawn down approximately \$3,000,000 of additional proceeds from the State Revolving Fund revenue bonds.

REQUIRED SUPPLEMENTARY INFORMATION

City of Manchester
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
Year ended June 30, 2009

	Governmental funds actual	Proprietary funds actual	Total
RECEIPTS			
Property taxes	\$2,141,137	\$ -	\$ 2,141,137
Tax increment financing collections	366,070	-	366,070
Other city tax	519,710	-	519,710
Licenses and permits	64,698	-	64,698
Use of money and property	53,667	22,836	76,503
Charges for services	456,697	1,571,652	2,028,349
Intergovernmental	1,276,460	392,761	1,669,221
Special assessments	152,715	560	153,275
Miscellaneous	<u>309,807</u>	<u>210</u>	<u>310,017</u>
Total receipts	<u>5,340,961</u>	<u>1,988,019</u>	<u>7,328,980</u>
DISBURSEMENTS			
Public safety	1,097,889	-	1,097,889
Public works	1,049,184	-	1,049,184
Culture and recreation	746,814	-	746,814
Community and economic development	192,906	-	192,906
General government	232,318	-	232,318
Debt service	1,732,730	480,104	2,212,834
Capital projects	3,131,933	5,026,418	8,158,351
Business type activities	-	<u>1,519,480</u>	<u>1,519,480</u>
Total disbursements	<u>8,183,774</u>	<u>7,026,002</u>	<u>15,209,776</u>
(Deficiency) of receipts (under) disbursements	<u>(2,842,813)</u>	<u>(5,037,983)</u>	<u>(7,880,796)</u>
OTHER FINANCING SOURCES, net	<u>2,678,362</u>	<u>4,166,518</u>	<u>6,844,880</u>
(Deficiency) of receipts and other financing sources (under) disbursements and other financing uses	(164,451)	(871,465)	(1,035,916)
BALANCES, beginning of year	<u>2,957,704</u>	<u>1,356,003</u>	<u>4,313,707</u>
BALANCES, end of year	<u>\$2,793,253</u>	<u>\$ 484,538</u>	<u>\$ 3,277,791</u>

See accompanying independent auditor's report.

<u>Budgeted amounts</u>		<u>Final to total variance</u>
<u>Original</u>	<u>Final</u>	
\$ 2,094,040	\$ 2,206,040	\$ (64,903)
367,915	367,915	(1,845)
511,766	511,766	7,944
25,030	25,030	39,668
90,975	90,975	(14,472)
2,137,000	2,151,115	(122,766)
1,099,915	2,529,505	(860,284)
181,237	235,382	(82,107)
<u>207,020</u>	<u>287,208</u>	<u>22,809</u>
<u>6,714,898</u>	<u>8,404,936</u>	<u>(1,075,956)</u>
1,172,463	1,172,463	74,574
1,047,245	1,246,302	197,118
663,543	780,115	33,301
1,347,743	208,627	15,721
249,994	255,525	23,207
750,005	1,833,555	(379,279)
7,477,908	8,406,845	248,494
<u>1,395,562</u>	<u>1,584,179</u>	<u>64,699</u>
<u>14,104,463</u>	<u>15,487,611</u>	<u>277,835</u>
<u>(7,389,565)</u>	<u>(7,082,675)</u>	<u>(798,121)</u>
<u>9,134,000</u>	<u>7,429,734</u>	<u>(584,854)</u>
1,744,435	347,059	(1,382,975)
<u>4,314,312</u>	<u>4,314,312</u>	<u>(98,466)</u>
<u>\$ 6,058,747</u>	<u>\$ 4,661,371</u>	<u>\$(1,481,441)</u>

City of Manchester
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2009

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 nonprogram. 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 \$7,116,624 including an increase in other financing sources and increased budgeted disbursements by \$8,514,000 and including an increase in transfers out that is reflected in other financing sources, net. The net change was a decrease of \$1,397,376. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

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, 2009

	Special revenue		
	Road use	Employee benefit fund	Police special uses
RECEIPTS			
Property taxes	\$ —	\$ 318,249	\$ —
Other city tax	—	494	—
Use of money and property	—	3,886	83
Charges for services	—	—	—
Intergovernmental	436,172	—	400
Special assessments	—	—	—
Miscellaneous	—	38,301	8,364
Total receipts	<u>436,172</u>	<u>360,930</u>	<u>8,847</u>
DISBURSEMENTS			
Public safety	—	—	9,438
Public works	413,321	—	—
Culture and recreation	—	—	—
Community and economic development	—	—	—
General government	—	56,683	—
Capital projects	—	—	—
Total disbursements	<u>413,321</u>	<u>56,683</u>	<u>9,438</u>
Excess (deficiency) of receipts over (under) disbursements	<u>22,851</u>	<u>304,247</u>	<u>(591)</u>
OTHER FINANCING SOURCES (USES)			
Interfund loans	—	—	—
Operating transfers in	—	—	—
Operating transfers out	—	(396,210)	—
Total other financing sources (uses)	<u>—</u>	<u>(396,210)</u>	<u>—</u>
Net change in cash balances	22,851	(91,963)	(591)
CASH BALANCES (DEFICIT), beginning of year	<u>240,870</u>	<u>341,624</u>	<u>14,596</u>
CASH BALANCES (DEFICIT), end of year	<u>\$ 263,721</u>	<u>\$ 249,661</u>	<u>\$ 14,005</u>
CASH BASIS FUND BALANCES (DEFICIT)			
Unreserved			
Special revenue funds	\$ 263,721	\$ 249,661	\$ 14,005
Capital projects fund	—	—	—
Total cash basis fund balances (deficit)	<u>\$ 263,721</u>	<u>\$ 249,661</u>	<u>\$ 14,005</u>

See accompanying independent auditor's report

Special revenue

<u>Airport fly-in</u>	<u>Tirrill Trust</u>	<u>COPS program</u>	<u>Police canine program</u>	<u>Park gift & trust</u>	<u>Park improvement</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	40	-	105	151	157
-	-	-	-	-	-
-	-	-	-	3,315	32,968
-	-	-	-	-	-
<u>1,753</u>	<u>11,690</u>	<u>6,000</u>	<u>19,330</u>	<u>4,502</u>	<u>17,036</u>
<u>1,753</u>	<u>11,730</u>	<u>6,000</u>	<u>19,435</u>	<u>7,968</u>	<u>50,161</u>
-	-	-	19,922	-	-
1,964	-	-	-	-	-
-	-	-	-	9,002	86,043
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,964</u>	<u>-</u>	<u>-</u>	<u>19,922</u>	<u>9,002</u>	<u>86,043</u>
<u>(211)</u>	<u>11,730</u>	<u>6,000</u>	<u>(487)</u>	<u>(1,034)</u>	<u>(35,882)</u>
-	-	-	-	-	-
641	-	-	-	-	37,894
-	-	(6,000)	-	-	-
<u>641</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>-</u>	<u>37,894</u>
430	11,730	-	(487)	(1,034)	2,012
<u>(430)</u>	<u>(3,294)</u>	<u>6</u>	<u>7,608</u>	<u>18,245</u>	<u>28,646</u>
\$ <u>-</u>	\$ <u>8,436</u>	\$ <u>6</u>	\$ <u>7,121</u>	\$ <u>17,211</u>	\$ <u>30,658</u>
\$ -	\$ 8,436	\$ 6	\$ 7,121	\$ 17,211	\$ 30,658
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ <u>-</u>	\$ <u>8,436</u>	\$ <u>6</u>	\$ <u>7,121</u>	\$ <u>17,211</u>	\$ <u>30,658</u>

City of Manchester
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES (continued)
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

	Special revenue			
	Sports complex	Fire truck reserve	Fire capital growth improvement	Rescue squad replacement
RECEIPTS				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other city tax	-	-	-	-
Use of money and property	18	1,602	-	187
Charges for services	-	-	-	-
Intergovernmental	3,000	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	3,018	1,602	-	187
DISBURSEMENTS				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	5,336	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	5,336	-	-	-
Excess (deficiency) of receipts over (under) disbursements	(2,318)	1,602	-	187
OTHER FINANCING SOURCES (USES)				
Interfund loans	-	-	-	-
Operating transfers in	-	3,067	-	-
Operating transfers out	-	-	(2,422)	-
Total other financing sources (uses)	-	3,067	(2,422)	-
Net change in cash balances	(2,318)	4,669	(2,422)	187
CASH BALANCES (DEFICIT), beginning of year	6,480	179,584	2,422	26,135
CASH BALANCES (DEFICIT), end of year	\$ 4,162	\$ 184,253	\$ -	\$ 26,322
CASH BASIS FUND BALANCES (DEFICIT)				
Unreserved				
Special revenue funds	\$ 4,162	\$ 184,253	\$ -	\$ 26,322
Capital project fund	-	-	-	-
Total cash basis fund balances (deficit)	\$ 4,162	\$ 184,253	\$ -	\$ 26,322

See accompanying independent auditor's report

Special revenue					
Housing acquisition/ demolition project	Lorna Stewart Trust	Holiday decoration replacement	Library gift and trust	Street equipment reserve	Economic development revolving fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
39	39	6	302	205	356
-	-	-	-	-	-
-	-	-	6,624	-	-
-	-	-	-	-	-
<u>5,565</u>	<u>-</u>	<u>-</u>	<u>6,662</u>	<u>201</u>	<u>-</u>
<u>5,604</u>	<u>39</u>	<u>6</u>	<u>13,588</u>	<u>406</u>	<u>356</u>
-	-	-	-	-	-
-	-	-	-	85,718	-
-	1,756	1,292	8,535	-	-
7,604	-	-	-	-	50,000
-	-	-	-	-	-
-	-	-	-	-	-
<u>7,604</u>	<u>1,756</u>	<u>1,292</u>	<u>8,535</u>	<u>85,718</u>	<u>50,000</u>
<u>(2,000)</u>	<u>(1,717)</u>	<u>(1,286)</u>	<u>5,053</u>	<u>(85,312)</u>	<u>(49,644)</u>
-	-	-	-	15,000	-
-	-	500	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
(2,000)	(1,717)	(786)	5,053	(70,312)	(49,644)
<u>14,802</u>	<u>4,624</u>	<u>1,452</u>	<u>41,413</u>	<u>201,819</u>	<u>50,303</u>
<u>\$ 12,802</u>	<u>\$ 2,907</u>	<u>\$ 666</u>	<u>\$ 46,466</u>	<u>\$ 131,507</u>	<u>\$ 659</u>
\$ 12,802	\$ 2,907	\$ 666	\$ 46,466	\$ 131,507	\$ 659
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 12,802</u>	<u>\$ 2,907</u>	<u>\$ 666</u>	<u>\$ 46,466</u>	<u>\$ 131,507</u>	<u>\$ 659</u>

City of Manchester
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES (continued)
Nonmajor Governmental Funds
As of and for the year ended June 30, 2009

	Capital projects			
	Downtown incentive program	CDBG housing	Bikeway walkway project	Street improvement fund
RECEIPTS				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other city tax	-	-	-	-
Use of money and property	233	-	-	-
Charges for services	-	10,302	-	-
Intergovernmental	-	307,166	-	-
Special assessments	-	-	-	78,570
Miscellaneous	6,667	-	-	-
Total receipts	<u>6,900</u>	<u>317,468</u>	<u>-</u>	<u>78,570</u>
DISBURSEMENTS				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Capital projects	23,441	239,971	119,402	38,378
Total disbursements	<u>23,441</u>	<u>239,971</u>	<u>119,402</u>	<u>38,378</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(16,541)</u>	<u>77,497</u>	<u>(119,402)</u>	<u>40,192</u>
OTHER FINANCING SOURCES (USES)				
Interfund loans	-	-	-	-
Operating transfers in	-	-	20,000	-
Operating transfers out	-	-	-	(40,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>(40,000)</u>
Net change in cash balances	(16,541)	77,497	(99,402)	192
CASH BALANCES (DEFICIT), beginning of year	<u>66,458</u>	<u>(230,004)</u>	<u>44,311</u>	<u>-</u>
CASH BALANCES (DEFICIT), end of year	<u>\$ 49,917</u>	<u>\$ (152,507)</u>	<u>\$ (55,091)</u>	<u>\$ 192</u>
CASH BASIS FUND BALANCES (DEFICIT)				
Unreserved				
Special revenue funds	\$ -	\$ -	\$ -	\$ -
Capital project fund	49,917	(152,507)	(55,091)	192
Total cash basis fund balances (deficit)	<u>\$ 49,917</u>	<u>\$ (152,507)</u>	<u>\$ (55,091)</u>	<u>\$ 192</u>

See accompanying independent auditor's report

Capital projects			
FEMA property acquisition	Capital projects - levied	Fire department expansion	Total
\$ -	\$ -	\$ -	\$ 318,249
-	-	-	494
-	292	8,268	15,969
-	-	-	10,302
10,893	-	60,000	860,538
-	-	-	78,570
-	-	14,221	140,292
<u>10,893</u>	<u>292</u>	<u>82,489</u>	<u>1,424,414</u>
-	-	-	29,360
-	-	-	501,003
-	-	-	111,964
-	-	-	57,604
-	-	-	56,683
<u>135,054</u>	<u>2,651</u>	<u>790,377</u>	<u>1,349,274</u>
<u>135,054</u>	<u>2,651</u>	<u>790,377</u>	<u>2,105,888</u>
<u>(124,161)</u>	<u>(2,359)</u>	<u>(707,888)</u>	<u>(681,474)</u>
-	-	-	15,000
-	-	2,422	64,524
-	-	(60)	(444,692)
<u>-</u>	<u>-</u>	<u>2,362</u>	<u>(365,168)</u>
(124,161)	(2,359)	(705,526)	(1,046,642)
<u>-</u>	<u>74,986</u>	<u>705,526</u>	<u>1,838,182</u>
\$ <u>(124,161)</u>	\$ <u>72,627</u>	\$ <u>-</u>	\$ <u>791,540</u>
\$ -	\$ -	\$ -	\$1,000,563
<u>(124,161)</u>	<u>72,627</u>	<u>-</u>	<u>(209,023)</u>
\$ <u>(124,161)</u>	\$ <u>72,627</u>	\$ <u>-</u>	\$ <u>791,540</u>

City of Manchester
SCHEDULE OF INDEBTEDNESS
For the year ended June 30, 2009

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest rates</u>	<u>Amount originally issued</u>
Essential Corporate Purpose	July 1, 2004	3.7 to 4.10%	\$2,375,000
Essential Corporate Purpose	November 1, 2005	3.6 to 3.65%	2,450,000
Essential Corporate Purpose	October 1, 2007	3.70 to 4.05%	715,000
Fire Station	February 15, 2008	3.85%	800,000
Essential Corporate Purpose	July 1, 2008	2.80 to 4.10%	<u>2,645,000</u>
Total			<u>\$8,985,000</u>
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>\$1,085,000</u>
State Revolving Fund Planning and Design Loan	August 23, 2007	0%	\$ 341,071
State Revolving Fund Revenue Bonds	July 2, 2008	3.00%	<u>4,221,040</u>
Total			<u>\$4,562,111</u>

See accompanying independent auditor's report.

Schedule 2

<u>Balance beginning of year</u>	<u>Issued during year</u>	<u>Redeemed during year</u>	<u>Balance end of year</u>	<u>Interest paid</u>
\$ 785,000	\$ —	\$ 120,000	\$ 665,000	\$ 30,065
1,955,000	—	250,000	1,705,000	70,535
715,000	—	60,000	655,000	27,590
800,000	—	34,000	766,000	30,800
<u>—</u>	<u>2,645,000</u>	<u>250,000</u>	<u>2,395,000</u>	<u>84,562</u>
<u>\$4,255,000</u>	<u>\$2,645,000</u>	<u>\$ 714,000</u>	<u>\$6,186,000</u>	<u>\$ 243,552</u>
\$ 365,500	\$ —	\$ 365,500	\$ —	\$ 3,736
91,698	—	91,698	—	978
<u>281,788</u>	<u>—</u>	<u>281,788</u>	<u>—</u>	<u>3,507</u>
<u>\$ 738,986</u>	<u>\$ —</u>	<u>\$ 738,986</u>	<u>\$ —</u>	<u>\$ 8,221</u>
\$ 341,071	\$ —	\$ 341,071	\$ —	\$ —
<u>—</u>	<u>4,221,040</u>	<u>—</u>	<u>4,221,040</u>	<u>42,533</u>
<u>\$ 341,071</u>	<u>\$4,221,040</u>	<u>\$ 341,071</u>	<u>\$4,221,040</u>	<u>\$ —</u>

City of Manchester
BOND AND NOTE MATURITIES
June 30, 2009

Year ending June 30	General Obligation Bonds					
	Essential Corporate Purpose		Essential Corporate Purpose		Essential Corporate Purpose	
	Issued July 1, 2004		Issued November 1, 2005		Issued October 1, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2010	3.70%	\$ 125,000	3.60%	\$ 260,000	3.70%	\$ 60,000
2011	3.80%	125,000	3.60%	270,000	3.75%	65,000
2012	3.90%	135,000	3.60%	280,000	3.75%	65,000
2013	4.00%	135,000	3.60%	285,000	3.80%	70,000
2014	4.10%	145,000	3.60%	300,000	3.85%	75,000
2015		-	3.65%	310,000	3.90%	75,000
2016		-		-	3.95%	80,000
2017		-		-	4.00%	80,000
2018		-		-	4.05%	85,000
2019		-		-		-
2020		-		-		-
2021		-		-		-
2022		-		-		-
2023		-		-		-
2024		-		-		-
2025		-		-		-
2026		-		-		-
2027		-		-		-
Totals		<u>\$ 665,000</u>		<u>\$1,705,000</u>		<u>\$ 655,000</u>

See accompanying independent auditor's report.

City of Manchester
BOND AND NOTE MATURITIES (continued)
June 30, 2009

Year ending June 30	General Obligation Bonds					
	Fire Station		Essential Corporate		State	
	Issued February 15, 2008		Purpose		Revolving Fund	
	Issued February 15, 2008		Issued July 1, 2008		Issued July 2, 2008	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2010	3.85%	\$ 35,000	2.80%	\$ 260,000	3.00%	\$ 287,000
2011	3.85%	36,000	3.10%	265,000	3.00%	296,000
2012	3.85%	37,000	3.30%	265,000	3.00%	305,000
2013	3.85%	38,000	3.50%	270,000	3.00%	314,000
2014	3.85%	38,000	3.70%	260,000	3.00%	323,000
2015	3.85%	40,000	3.85%	270,000	3.00%	333,000
2016	3.85%	41,000	3.95%	310,000	3.00%	343,000
2017	3.85%	42,000	4.00%	245,000	3.00%	353,000
2018	3.85%	42,000	4.10%	250,000	3.00%	364,000
2019	3.85%	43,000		-	3.00%	375,000
2020	3.85%	43,000		-	3.00%	386,000
2021	3.85%	44,000		-	3.00%	398,000
2022	3.85%	45,000		-	3.00%	144,040
2023	3.85%	47,000		-		-
2024	3.85%	48,000		-		-
2025	3.85%	48,000		-		-
2026	3.85%	49,000		-		-
2027	3.85%	50,000		-		-
Totals		<u>\$ 766,000</u>		<u>\$2,395,000</u>		<u>\$4,221,040</u>

City of Manchester
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
All Governmental Funds
As of and for the last five years

	Year ended June 30				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
RECEIPTS					
Property tax	\$2,141,137	\$1,898,935	\$1,949,803	\$1,826,532	\$1,747,287
Tax increment financing collections	366,070	213,627	329,300	339,272	339,328
Other city taxes	519,710	448,700	637,168	735,313	389,850
Licenses and permits	64,698	65,310	25,191	31,960	54,526
Use of money and property	53,667	75,557	107,776	55,509	45,182
Intergovernmental	1,276,460	950,759	791,705	1,488,351	379,864
Charges for services	456,697	475,543	451,999	436,288	1,349,935
Special assessments	152,715	197,318	242,507	181,212	116,617
Miscellaneous	309,807	673,164	603,488	200,068	492,758
Total receipts	<u>\$5,340,961</u>	<u>\$4,998,913</u>	<u>\$5,138,937</u>	<u>\$5,294,505</u>	<u>\$4,915,347</u>
DISBURSEMENTS					
Operating					
Public safety	\$1,097,889	\$1,016,739	\$ 946,697	\$ 998,579	\$ 928,904
Public works	1,049,184	969,377	854,172	952,270	900,842
Culture and recreation	746,814	637,416	563,005	630,143	551,069
Community and economic development	192,906	524,084	122,017	738,954	526,735
General government	232,318	493,263	228,529	308,085	162,541
Debt service	1,732,730	954,345	833,731	833,084	1,760,950
Capital projects	3,131,933	2,177,133	1,597,596	2,998,884	2,626,556
Total disbursements	<u>\$8,183,774</u>	<u>\$6,772,357</u>	<u>\$5,145,747</u>	<u>\$7,459,999</u>	<u>\$7,457,597</u>

See accompanying independent auditor's report.

City of Manchester
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2009

<u>Program</u>	<u>CFDA number</u>	<u>Agency pass-through number</u>	<u>Program expenditures</u>
Direct			
U.S. Department of Agriculture and Rural Development Community Facilities Grant	10.780		\$ <u>60,000</u>
Indirect			
Department of Housing and Urban Development <i>Iowa Department of Economic Development</i> Community Development Block Grants (CDBG) Housing Fund Contract	14.228	07-HSG-084	23,365
(CDBG) Program Contract	14.228	08-WS-041	392,761
Home Investment Partnership Program (HOME) Program Master Contract	14.239	07-4M-107	134,512
U.S. Department of Public Defense Iowa Homeland Security and Emergency Management Division Disaster Grants-Public Assistance (Presidentially Declared Disasters)			
	97.034		109,369
Community Disaster Grants (Presidentially Declared Disasters)	97.034		<u>10,893</u>
			<u>670,900</u>
Total			\$ <u>730,900</u>

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Manchester and is presented on the cash basis of accounting. The information in 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.

**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
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, 2009, which collectively comprise the City of Manchester, Iowa's basic financial statements as listed on the contents page of this report and have issued our report thereon dated February 8, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Manchester, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Manchester, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Manchester, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Manchester, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Manchester, Iowa's internal control. We consider the deficiencies in internal control described in Part II of the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item II-A-09 is a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 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.

The City of Manchester's responses to findings identified in our audit are described in the accompanying schedule of findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Manchester's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 8, 2010

**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**

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

Compliance

We have audited the compliance of the City of Manchester, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The City of Manchester, Iowa's major federal program is identified in the summary of independent auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Manchester, Iowa's management. Our responsibility is to express an opinion on the City of Manchester, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Manchester, Iowa's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Manchester, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in Part III of the accompanying schedule of findings.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over compliance that we consider a material weakness.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item III-B-09 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings as item III-B-09 to be material weakness.

The City of Manchester, Iowa's responses to the findings identified in our audit are described in the accompanying schedule of findings. While we have expressed our conclusions on the City's responses, we did not audit City of Manchester, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of management, City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 8, 2010

City of Manchester
SCHEDULE OF FINDINGS
Year ended June 30, 2009

Part I—Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including one which is considered to be a material weakness.
- (c) The audit did not disclose any noncompliance with is material to the financial statements.
- (d) A significant deficiency in internal control over financial reporting over major programs was disclosed by the audit of financial statements, which is considered to be a material weaknesses.
- (e) An unqualified opinion was issued on compliance with requirements applicable to major programs.
- (f) The audits did not disclose audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - *CFDA Number 14.228 - Community Development Block Grant
- (h) The dollar threshold used to distinguish between type A and B programs was \$300,000.
- (i) The City of Manchester did not qualify as a low-risk auditee.

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2009

Part II – Findings Related to Financial Statements

SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESS

II-A-09 SEGREGATION OF DUTIES

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over: The cash receipts listing, bank deposits, check writing, payroll preparation and distribution, and posting of these items to the general ledger.

Recommendation

We realize that with two office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will review our procedures and segregate duties to the extent possible with existing personnel.

Conclusion

Response accepted.

II-B-09 FINANCIAL STATEMENTS AND DISCLOSURES

The City is responsible for the preparation of its financial statements and its disclosures. The City engages Denman & Company, LLP to assist in assembling and drafting the financial statements as management and employees have not received recent training with regards to preparing financial statements and related disclosures, in accordance with the cash basis of accounting.

Recommendation

The City should consider the cost versus benefit of correcting this control deficiency. The City may determine the cost of hiring or training an individual to perform this function far exceeds the benefit.

Response

We believe the cost of eliminating this deficiency far exceeds the benefit.

Conclusion

Response accepted.

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2009

Part III—Findings Related to Federal Awards

INSTANCE OF NONCOMPLIANCE

CFDA Number 14.228: Community Development Block Grant
Pass-through agency number: 09-WS-041
Federal award year: 2009
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-09 FUND BALANCE

The City has a responsibility to maintain funds in a sound financial position so that funds expended under continuing appropriation shall not exceed the resources available for paying for public improvement, per Chapter 384.20 of the Code of Iowa. The CDBG Fund had a deficit balance of \$152,507 at June 30, 2009.

Response

The deficit will be eliminated upon receipt of grant money.

SIGNIFICANT DEFICIENCIES RISING TO THE LEVEL OF MATERIAL WEAKNESSES

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through agency number: 09-HSG-084
Federal award year: 2009
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through agency number: 09-WS-041
Federal award year: 2009
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2009

Part III—Findings Related to Federal Awards (continued)

III-B-09 SEGREGATION OF DUTIES

The City has a responsibility to establish and maintain effective internal controls over financial reporting of federal awards programs, which includes adequate segregation of duties. A limited number of City personnel perform many of the accounting and financial functions including those related to federal awards programs.

Recommendation

The City should review its control procedures to obtain the maximum level of internal control possible under the circumstances. Management's close supervision and review of accounting information is the best means of preventing or detecting errors or irregularities.

Response

We have reviewed the procedures and plan to look for improvements to internal control procedures to the extent possible with existing personnel.

Conclusion

Response accepted.

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2009

Part IV—Other Findings Related to Statutory Reporting

IV-A-09 CERTIFIED BUDGET

Expenditures during the year ended June 30, 2009 exceeded the amount budgeted in the debt service function. 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.

Recommendation

The amendment to the budget should have been in an amount adequate so that expenditures do not exceed the budget.

Response

We will have the department heads review the budget activity more closely in the future to be sure that the amendments are adequate.

Conclusion

Response accepted.

IV-B-09 QUESTIONABLE EXPENDITURES

No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-09 TRAVEL EXPENSE

No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.

IV-D-09 BUSINESS TRANSACTIONS

<u>Name, Title, and Business Co</u>	<u>Transaction Description</u>	<u>Amount</u>
Linda Loney-Fangman, police dispatch	CPR training class and supplies	\$ 1,009
Margie Recker, police dispatch, owner of Recker Signs	Sign lettering services	663
Mike Corkery, fireman, owner of NE Iowa Telephone Service	Telephone services and supplies	27,508
Dan Gritzner, fireman, owner of Baugartner Gate Factory	Welding services	2,297
Bill Scherbring, fireman, owner of Honey Creek Furniture and Flooring	Flooring services	10,403

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2009

Part IV—Other Findings Related to Statutory Reporting (continued)

IV-D-09 BUSINESS TRANSACTIONS (continued)

<u>Name, Title, and Business Co</u>	<u>Transaction Description</u>	<u>Amount</u>
Kevin Wieser, fireman	Grant writing services	\$ 250
Renee Tibbott, seasonal pool employee	Recreational art instruction class	204
Erica Foley, spouse of Doug Foley, park and recreation director	Youth volleyball supervisor	240
Sue's Flower & Garden Center, business owned by daughter of council member, Tony Broghammer	Landscaping services and supplies	<u>2,896</u>
		<u>\$45,470</u>

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

IV-E-09 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-09 COUNCIL MINUTES

We noted no transactions requiring Council approval which had not been approved in the Council minutes.

Finding

Although minutes of Council meetings were published, one was not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation

The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response

The City publishes the minutes as soon as possible after the Council meetings. The 15-day requirement was not met due to the timing of meeting dates and the change in publication dates of the local newspaper.

Conclusion

Response accepted.

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2009

Part IV—Other Findings Related to Statutory Reporting (continued)

IV-G-09 DEPOSITS AND INVESTMENTS

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-09 REVENUE BONDS/NOTES

The City was in compliance with all requirements of their sewer revenue bond and note provisions.

IV-I-09 FINANCIAL CONDITION

The following fund had deficit balances at June 30, 2009:

CDBG housing	\$(152,507)
Bikeway walkway project	(55,091)
FEMA property acquisition	<u>(124,161)</u>
	<u>\$(331,759)</u>

Recommendation

The City should investigate alternatives to eliminate these deficit balances in order to return these accounts to a sound financial position.

Response

The deficits described above will be eliminated through grants, loans, transfers from other funds, or future revenues of the funds.