

**City of Manchester**

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

**June 30, 2010**



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**City of Manchester  
OFFICIALS**

| <u>Before January 2010<br/>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        |

| <u>After January 2010<br/>Name</u> | <u>Title</u>                | <u>Term expires</u> |
|------------------------------------|-----------------------------|---------------------|
| Milt L. Kramer                     | Mayor                       | January 2014        |
| Dean K. Sherman                    | Council Member              | January 2012        |
| Tony C. Broghammer                 | Council Member              | January 2014        |
| Daniel J. Stelken                  | Council Member              | January 2012        |
| Connie L. Behnken                  | Council Member              | January 2012        |
| Ron R. Struble                     | Council Member              | January 2014        |
| 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, 2010, 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, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 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 on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 14 and 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Manchester's basic financial statements as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the basic financial statements for the year ended June 30, 2009 (none of which are presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 accompanying 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
December 15, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- The City's property tax revenues increased by \$125,320, or approximately 6%, to \$2,266,457. Overall revenues increased by \$74,475, or less than 1%, to \$7,403,455 from fiscal 2009 to fiscal 2010.
- Total disbursements decreased by approximately 32%, or \$4,796,946 from fiscal 2009 to fiscal 2010.
- The City's total cash basis net assets increased by approximately 6%, or \$198,003, to \$3,475,794 from June 30, 2009 to June 30, 2010.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water department and sewer department. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

**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 Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Governmental funds are further broken down into the following activities:

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

Public Works - This category includes roadway maintenance, traffic safety, 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.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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. 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.

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

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

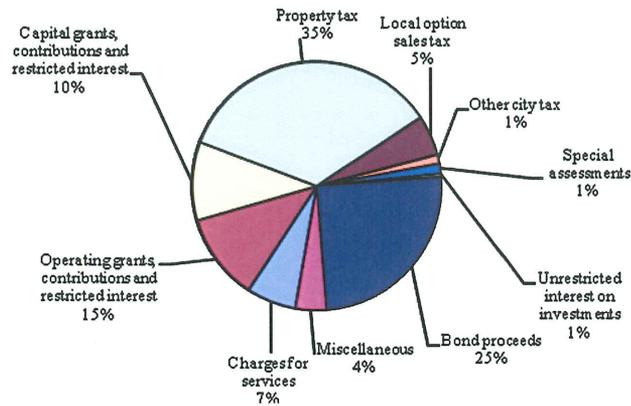
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2,793,253 to \$3,370,651.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

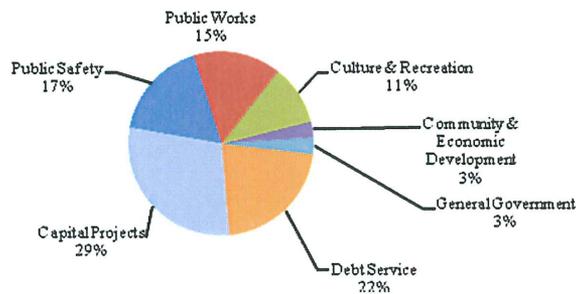
| City of Manchester   |                             |                             |
|--|-----------------------------|-----------------------------|
| Change in Cash Basis Net Assets of Governmental Activities |                             |                             |
|  | Year ended June 30,<br>2010 | Year ended June 30,<br>2009 |
| <b>Receipts and transfers:</b>                             |                             |                             |
| Program receipts   |                             |                             |
| Charges for services                                       | \$ 480,706                  | \$ 456,697                  |
| Operating grants, contributions, and restricted interest   | 840,426                     | 572,965                     |
| Capital grants, contributions, and restricted interest     | 765,642                     | 447,433                     |
| General receipts   |                             |                             |
| Property tax   | 2,596,292                   | 2,507,207                   |
| Local option sales tax                                     | 391,418                     | 418,075                     |
| Other city tax   | 89,753                      | 101,635                     |
| Special assessments  | 97,815                      | 152,715                     |
| Unrestricted interest on investments                       | 31,568                      | 35,492                      |
| Bond proceeds  | 1,858,473                   | 2,623,840                   |
| Miscellaneous  | 300,550                     | 648,742                     |
| Interfund loans  | -                           | (32,330)                    |
| Transfers, net   | 84,455                      | 86,852                      |
| Total receipts   | <u>7,537,098</u>            | <u>8,019,323</u>            |
| <b>Disbursements</b>                                       |                             |                             |
| Public Safety  | 1,205,421                   | 1,097,889                   |
| Public Works   | 1,073,190                   | 1,049,184                   |
| Culture and Recreation                                     | 731,011                     | 746,814                     |
| Community and Economic Development                         | 198,688                     | 192,906                     |
| General Government   | 205,237                     | 232,318                     |
| Debt Service   | 1,529,018                   | 1,732,730                   |
| Capital Projects   | 2,017,135                   | 3,131,933                   |
| Total disbursements  | <u>6,959,700</u>            | <u>8,183,774</u>            |
| Increase/decrease in cash basis net assets                 | 577,398                     | (164,451)                   |
| Cash basis net assets beginning of year                    | 2,793,253                   | 2,957,704                   |
| Cash basis net assets end of year                          | <u>\$ 3,370,651</u>         | <u>\$ 2,793,253</u>         |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Receipts by Source



Disbursements by Function



The City's receipts including other financing sources for governmental activities totaled \$7,537,098 for Fiscal 2010. The total cost of all programs and services was \$6,959,700. The net result was a surplus of \$577,398 for Fiscal 2010.

The City decreased property tax rates for 2010 from \$15.60688 to \$15.60186. Even with Residential Rollback, this decrease resulted in an additional \$125,320 in property tax revenues.

The cost of all governmental activities this year was \$6,959,700 compared to \$8,183,774 last year. As shown in the Statement of Activities and Net Assets, the amount of property taxes ultimately utilized for these activities was only \$2,596,292 because some of the cost was paid by other city taxes, which include local option taxes primarily \$391,418, and by individuals or entities including governments and organizations who directly benefited from the service \$187,568. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3,784,422 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<br>30, 2010 | Year ended June<br>30, 2009 |
| <b>Receipts</b>  |                             |                             |
| Program Receipts:                                      |                             |                             |
| Charges for service                                    |                             |                             |
| Water  | \$ 493,510                  | \$ 462,796                  |
| Sewer  | 1,086,676                   | 1,108,856                   |
| General Receipts:                                      |                             |                             |
| Special Assessments                                    | 1,007                       | 560                         |
| Unrestricted Interest on Investments                   | 18,228                      | 22,836                      |
| Miscellaneous  | 3,138                       | 210                         |
| Intergovernmental                                      | 206,726                     | 392,761                     |
| Interfund Loans  | -                           | 32,330                      |
| Debt Proceeds  | 1,348,905                   | 4,221,040                   |
| <b>Total receipts</b>                                  | <b>3,158,190</b>            | <b>6,241,389</b>            |
| <b>Disbursements and transfers</b>                     |                             |                             |
| Water  | 600,652                     | 994,781                     |
| Sewer  | 2,852,478                   | 6,031,221                   |
| Transfers  | 84,455                      | 86,852                      |
| <b>Total disbursements and transfers</b>               | <b>3,537,585</b>            | <b>7,112,854</b>            |
| Increase/decrease in cash basis net assets             | (379,395)                   | (871,465)                   |
| Cash basis net assets beginning of year                | 484,538                     | 1,356,003                   |
| Cash basis net assets end of year                      | <u>\$ 105,143</u>           | <u>\$ 484,538</u>           |

Total business type activities receipts for the fiscal year were \$3,158,190 compared to \$6,241,389 last year. The cash balance decreased by \$379,395 from the prior year due primarily to the use of water fund reserves for the Well #7 Nitrate Reduction Capital Project and the expenditure of receipts for the Wastewater Treatment Plant Upgrade Project and the Sewer SRF loan payment. Total disbursements and transfers for the fiscal year were \$3,537,585, a decrease of approximately 50% over the prior year. This decrease was, primarily due to the completion of the Wastewater Treatment Plant Upgrade Project.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **INDIVIDUAL GOVERNMENTAL FUND ANALYSIS**

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of \$3,370,651, an increase of \$577,398 from last year's total of \$2,793,253. The following are the major reasons for the change in fund balances of the major funds from the prior year:

The General Fund cash balance increased by \$128,071 from the prior year to \$539,280 due to an increase in program receipts and the utilization of franchise fee funds to offset the street lighting costs.

The Tax Increment Fund cash balance increased by \$431,786 from the prior year to \$434,702. This increase was due primarily to grant proceeds received to cover expenditures from capital projects in the prior year.

The Road Use Tax Fund cash balance increased by \$69,303 from the prior year to \$333,024. This increase was due primarily to the transfer of street lighting costs to the general fund and an overall decrease in expenditures.

The Employee Benefit Fund cash balance decreased by \$129,247 from the prior year to \$120,414. This decrease was the result of the utilization of cash reserves to offset the increased cost of employee benefits which include health and dental insurance.

The Street Equipment Reserve cash balance decreased by \$81,016 from the prior year to \$50,491. This decrease was due to the utilization of cash reserves to purchase an end loader and truck for the street department.

The Bikeway/Walkway Project Fund cash balance was zeroed out from a prior year balance of \$55,091. This was attributable to the receipt of grant funds for the Riverfront Walkway Project.

The Street Projects Fund cash balance increased by \$352,309 from the prior year to \$982,673. The increase is attributable to grant and bond proceeds received during this fiscal year to cover expenditures related to street project work within the City.

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 deficit of \$287,414. The City will receive FEMA funds and CDBG funds to offset these expenditures.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Water Fund cash balance decreased by \$92,857 to \$55,833, due to expenditures associated with a nitrate removal projects and radio read meter replacement.

The Sewer Fund cash balance decreased by \$286,538 to a deficit of \$49,310, 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 24<sup>th</sup>, 2010. The amendment was needed, in large part, due to the following items: grant receipts for the police department, fire department, street department, housing, and FEMA acquisition project; proceeds from the 2010 bond issue and refinance; the sale of equipment; equipment purchases; Schram Park shelter project expense; hotel/motel expenditures; nuisance enforcement; street project costs; FEMA acquisition cost and wastewater treatment plant improvement costs. The additional revenues received by the City absorbed the additional expenditures.

### **DEBT ADMINISTRATION**

At June 30, 2010, the City had \$6,771,000 in general obligation bonds, compared to \$6,186,000 last year, as shown below. Additionally, the City had \$5,469,945 in sewer revenue bonds at June 30, 2010.

| City of Manchester                            |                      |                      |
|---|----------------------|----------------------|
| Outstanding Debt at Year-End                  |                      |                      |
|   | June 30,             |                      |
|   | 2010                 | 2009                 |
| General obligation bonds                      | \$ 6,771,000         | \$ 6,186,000         |
| State Revolving Fund Planning and Design Loan | 5,469,945            | 4,221,040            |
| <b>Total</b>                                  | <b>\$ 12,240,945</b> | <b>\$ 10,407,040</b> |

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 \$6,771,000 is significantly below its constitutional debt limit of \$12,855,285.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In completing the fiscal year 2011 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 6.9% versus 6.4% in 2009. 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 population decreased slightly with the 2010 Census from 5,257 to 5,179. The impact of this decrease to the City should be minimal. The City's property tax rate will remain increase from \$15.60186 in Fiscal 2010 to \$15.88760 in Fiscal 2011.

### **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.

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## **BASIC FINANCIAL STATEMENTS**

**City of Manchester**  
**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**  
As of and for the year ended June 30, 2010

|                                      | <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> |
| <b>FUNCTIONS/PROGRAMS</b>            |                      |                            |   |   |
| Governmental activities              |                      |                            |   |   |
| Public safety                        | \$ 1,205,421         | \$ 2,887                   | \$ 266,824  | \$ -  |
| Public works                         | 1,073,190            | 338,331                    | 500,945   | 85,776  |
| Culture and recreation               | 731,011              | 106,291                    | 33,281  | -   |
| Community and economic development   | 198,688              | -                          | 39,376  | 296,890   |
| General government                   | 205,237              | 33,197                     | -   | -   |
| Debt service                         | 1,529,018            | -                          | -   | -   |
| Capital projects                     | <u>2,017,135</u>     | <u>-</u>                   | <u>-</u>  | <u>382,976</u>  |
| Total governmental activities        | <u>6,959,700</u>     | <u>480,706</u>             | <u>840,426</u>  | <u>765,642</u>  |
| Business type activities             |                      |                            |   |   |
| Water utility                        | 600,652              | 493,510                    | -   | -   |
| Wastewater treatment                 | <u>2,852,478</u>     | <u>1,086,676</u>           | <u>-</u>  | <u>206,726</u>  |
| Total business type activities       | <u>3,453,130</u>     | <u>1,580,186</u>           | <u>-</u>  | <u>206,726</u>  |
| Total primary government             | <u>\$10,412,830</u>  | <u>\$ 2,060,892</u>        | <u>\$ 840,426</u>   | <u>\$ 972,368</u>   |
| <b>GENERAL RECEIPTS</b>              |                      |                            |   |   |
| Property tax levied for              |                      |                            |   |   |
| General purposes                     |                      |                            |   |   |
| Insurance                            |                      |                            |   |   |
| Employee benefits                    |                      |                            |   |   |
| Tax increment financing              |                      |                            |   |   |
| Debt service                         |                      |                            |   |   |
| Local option tax                     |                      |                            |   |   |
| Other city tax                       |                      |                            |   |   |
| Special assessments                  |                      |                            |   |   |
| Unrestricted interest in investments |                      |                            |   |   |
| Bond proceeds, net of discount       |                      |                            |   |   |
| Miscellaneous                        |                      |                            |   |   |
| Transfers in (out)                   |                      |                            |   |   |
| Total general receipts and transfers |                      |                            |   |   |
| Change in cash basis net assets      |                      |                            |   |   |
| <b>NET ASSETS, beginning of year</b> |                      |                            |   |   |
| <b>NET ASSETS, end of year</b>       |                      |                            |   |   |
| <b>CASH BASIS NET ASSETS</b>         |                      |                            |   |   |
| 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>       |
|--------------------------------|---------------------------------|--------------------|
| \$ (935,710)                   | \$ —                            | \$ (935,710)       |
| (148,138)                      | —                               | (148,138)          |
| (591,439)                      | —                               | (591,439)          |
| 137,578                        | —                               | 137,578            |
| (172,040)                      | —                               | (172,040)          |
| (1,529,018)                    | —                               | (1,529,018)        |
| <u>(1,634,159)</u>             | <u>—</u>                        | <u>(1,634,159)</u> |
| <u>(4,872,926)</u>             | <u>—</u>                        | <u>(4,872,926)</u> |
| —                              | (107,142)                       | (107,142)          |
| <u>—</u>                       | <u>(1,559,076)</u>              | <u>(1,559,076)</u> |
| <u>—</u>                       | <u>(1,666,218)</u>              | <u>(1,666,218)</u> |
| <u>(4,872,926)</u>             | <u>(1,666,218)</u>              | <u>(6,539,144)</u> |
| 1,160,460                      | —                               | 1,160,460          |
| 124,413                        | —                               | 124,413            |
| 343,042                        | —                               | 343,042            |
| 329,835                        | —                               | 329,835            |
| 638,542                        | —                               | 638,542            |
| 391,418                        | —                               | 391,418            |
| 89,753                         | —                               | 89,753             |
| 97,815                         | 1,007                           | 98,822             |
| 31,568                         | 18,228                          | 49,796             |
| 1,858,473                      | 1,348,905                       | 3,207,378          |
| 300,550                        | 3,138                           | 303,688            |
| <u>84,455</u>                  | <u>(84,455)</u>                 | <u>—</u>           |
| <u>5,450,324</u>               | <u>1,286,823</u>                | <u>6,737,147</u>   |
| 577,398                        | (379,395)                       | 198,003            |
| <u>2,793,253</u>               | <u>484,538</u>                  | <u>3,277,791</u>   |
| <u>\$3,370,651</u>             | <u>\$ 105,143</u>               | <u>\$3,475,794</u> |
| \$ 20,226                      | \$ —                            | \$ 20,226          |
| <u>3,350,425</u>               | <u>105,143</u>                  | <u>3,455,568</u>   |
| <u>\$3,370,651</u>             | <u>\$ 105,143</u>               | <u>\$3,475,794</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, 2010**

|   | <b>Special revenue</b>                 |                                       |  |                   |
|---|--|---------------------------------------|--|-------------------|
| <b>General</b>  | <b>Tax<br/>increment<br/>financing</b> | <b>Local<br/>option<br/>sales tax</b> | <b>Franchise<br/>fees<br/>gas and<br/>electric</b> |                   |
| <b>RECEIPTS</b>   |  |                                       |  |                   |
| Property taxes  | \$1,284,873                            | \$ —                                  | \$ —   | \$ —              |
| Tax increment financing collections                           | —                                      | 329,835                               | —  | —                 |
| Other city tax  | 89,753                                 | —                                     | 391,418  | —                 |
| Licenses and permits  | 26,796                                 | —                                     | —  | —                 |
| Use of money and property                                     | 12,143                                 | 1,524                                 | 1,663  | 13,956            |
| Charges for services  | 445,935                                | —                                     | —  | —                 |
| Intergovernmental   | 290,293                                | 382,976                               | —  | —                 |
| Special assessments   | —                                      | —                                     | —  | —                 |
| Miscellaneous   | 151,085                                | 5,566                                 | —  | —                 |
| Total receipts  | <u>2,300,878</u>                       | <u>719,901</u>                        | <u>393,081</u>                                     | <u>13,956</u>     |
| <b>DISBURSEMENTS</b>  |  |                                       |  |                   |
| Operating   |  |                                       |  |                   |
| Public safety   | 1,171,030                              | —                                     | —  | —                 |
| Public works  | 500,085                                | —                                     | —  | —                 |
| Culture and recreation  | 666,046                                | —                                     | —  | —                 |
| Community and economic development                            | 167,135                                | 22,580                                | —  | —                 |
| General government  | 166,899                                | —                                     | —  | —                 |
| Debt service  | —                                      | —                                     | —  | —                 |
| Capital projects  | —                                      | —                                     | —  | —                 |
| Total disbursements   | <u>2,671,195</u>                       | <u>22,580</u>                         | <u>—</u>   | <u>—</u>          |
| Excess (deficiency) of receipts<br>over (under) disbursements | <u>(370,317)</u>                       | <u>697,321</u>                        | <u>393,081</u>                                     | <u>13,956</u>     |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |  |                                       |  |                   |
| Bond proceeds   | —                                      | —                                     | —  | —                 |
| Bond discount   | —                                      | —                                     | —  | —                 |
| Interfund loans   | —                                      | (15,000)                              | —  | —                 |
| Operating transfers in  | 538,652                                | —                                     | —  | —                 |
| Operating transfers out                                       | (40,264)                               | (250,535)                             | (400,000)  | (120,000)         |
| Total other financing sources (uses)                          | <u>498,388</u>                         | <u>(265,535)</u>                      | <u>(400,000)</u>                                   | <u>(120,000)</u>  |
| Net change in cash balances                                   | 128,071                                | 431,786                               | (6,919)  | (106,044)         |
| <b>CASH BALANCES</b> , beginning of year                      | <u>411,209</u>                         | <u>2,916</u>                          | <u>353,860</u>                                     | <u>602,899</u>    |
| <b>CASH BALANCES</b> , end of year                            | <u>\$ 539,280</u>                      | <u>\$ 434,702</u>                     | <u>\$ 346,941</u>                                  | <u>\$ 496,855</u> |
| <b>CASH BASIS FUND BALANCES (DEFICIT)</b>                     |  |                                       |  |                   |
| Reserved  |  |                                       |  |                   |
| Debt service  | \$ —                                   | \$ —                                  | \$ —   | \$ —              |
| Unreserved  |  |                                       |  |                   |
| General fund  | 539,280                                | —                                     | 346,941  | —                 |
| Special revenue fund  | —                                      | 434,702                               | —  | 496,855           |
| Capital project fund  | —                                      | —                                     | —  | —                 |
| Total cash basis fund balances                                | <u>\$ 539,280</u>                      | <u>\$ 434,702</u>                     | <u>\$ 346,941</u>                                  | <u>\$ 496,855</u> |

See Notes to Financial Statements.

| <u>Capital<br/>Projects<br/>Street<br/>projects</u> | <u>Debt<br/>service</u> | <u>Other<br/>nonmajor<br/>governmental<br/>funds</u> | <u>Total</u>        |
|---|-------------------------|--|---------------------|
| \$ -  | \$ 638,542              | \$ 343,042   | \$2,266,457         |
| -   | -                       | -  | 329,835             |
| -   | -                       | -  | 481,171             |
| -   | -                       | -  | 26,796              |
| -   | 1,774                   | 5,038  | 36,098              |
| -   | -                       | 3,445  | 449,380             |
| -   | -                       | 932,799  | 1,606,068           |
| 15,704  | -                       | 82,111   | 97,815              |
| -   | -                       | 143,899  | 300,550             |
| <u>15,704</u>                                       | <u>640,316</u>          | <u>1,510,334</u>                                     | <u>5,594,170</u>    |
| -   | -                       | 34,391   | 1,205,421           |
| -   | -                       | 573,105  | 1,073,190           |
| -   | -                       | 64,965   | 731,011             |
| -   | -                       | 8,973  | 198,688             |
| -   | -                       | 38,338   | 205,237             |
| -   | 1,529,018               | -  | 1,529,018           |
| <u>1,398,395</u>                                    | <u>-</u>                | <u>618,740</u>                                       | <u>2,017,135</u>    |
| <u>1,398,395</u>                                    | <u>1,529,018</u>        | <u>1,338,512</u>                                     | <u>6,959,700</u>    |
| (1,382,691)   | (888,702)               | 171,822  | (1,365,530)         |
| -   | 1,865,000               | -  | 1,865,000           |
| -   | (6,527)                 | -  | (6,527)             |
| -   | -                       | 15,000   | -                   |
| 1,735,000   | 874,990                 | 92,919   | 3,241,561           |
| -   | (1,825,000)             | (521,307)  | (3,157,106)         |
| <u>1,735,000</u>                                    | <u>908,463</u>          | <u>(413,388)</u>                                     | <u>1,942,928</u>    |
| 352,309   | 19,761                  | (241,566)  | 577,398             |
| <u>630,364</u>                                      | <u>465</u>              | <u>791,540</u>                                       | <u>2,793,253</u>    |
| \$ <u>982,673</u>                                   | \$ <u>20,226</u>        | \$ <u>549,974</u>                                    | \$ <u>3,370,651</u> |
| \$ -  | \$ 20,226               | \$ -   | \$ 20,226           |
| -   | -                       | -  | 539,280             |
| -   | -                       | 908,918  | 2,187,416           |
| <u>982,673</u>                                      | <u>-</u>                | <u>(358,944)</u>                                     | <u>623,729</u>      |
| \$ <u>982,673</u>                                   | \$ <u>20,226</u>        | \$ <u>549,974</u>                                    | \$ <u>3,370,651</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, 2010**

|   | <b>Enterprise Funds</b>  |                          |                   |
|---|--------------------------|--------------------------|-------------------|
|   | <b>Water<br/>Utility</b> | <b>Sewer<br/>Utility</b> | <b>Total</b>      |
| <b>OPERATING RECEIPTS</b>   |                          |                          |                   |
| Charges for services  | \$ 493,510               | \$1,086,676              | \$1,580,186       |
| Special assessments   | 1,007                    | -                        | 1,007             |
| Miscellaneous   | -                        | 3,138                    | 3,138             |
| Total operating receipts  | <u>494,517</u>           | <u>1,089,814</u>         | <u>1,584,331</u>  |
| <b>OPERATING DISBURSEMENTS</b>  |                          |                          |                   |
| Business type activities  | <u>600,652</u>           | <u>509,613</u>           | <u>1,110,265</u>  |
| Excess (deficiency) of operating receipts<br>over (under) operating disbursements | <u>(106,135)</u>         | <u>580,201</u>           | <u>474,066</u>    |
| <b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>                                      |                          |                          |                   |
| Interest on investments   | 13,278                   | 4,950                    | 18,228            |
| Intergovernmental   | -                        | 206,726                  | 206,726           |
| Revenue bond proceeds   | -                        | 1,348,905                | 1,348,905         |
| Capital projects  | -                        | (2,064,221)              | (2,064,221)       |
| Debt service  | -                        | (278,644)                | (278,644)         |
| Net nonoperating receipts (disbursements)   | <u>13,278</u>            | <u>(782,284)</u>         | <u>(769,006)</u>  |
| Excess (disbursements)  | (92,857)                 | (202,083)                | (294,940)         |
| <b>TRANSFERS</b>  |                          |                          |                   |
| Operating transfers out   | -                        | (84,455)                 | (84,455)          |
| Net change in cash balances   | <u>(92,857)</u>          | <u>(286,538)</u>         | <u>(379,395)</u>  |
| <b>CASH BALANCES</b> , beginning of year  | <u>148,690</u>           | <u>335,848</u>           | <u>484,538</u>    |
| <b>CASH BALANCES (DEFICIT)</b> , end of year                                      | <u>\$ 55,833</u>         | <u>\$ (49,310)</u>       | <u>\$ 105,143</u> |
| <b>CASH BASIS FUND BALANCE (DEFICIT)</b> , unreserved                             | <u>\$ 55,833</u>         | <u>\$ (49,310)</u>       | <u>\$ 105,143</u> |

**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, community and 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
- Community Compensation Board-Hotel/Motel Tax
- East Central Intergovernmental Association
- Manchester Good to Great
- Northeastern Iowa Regional League

**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 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, 2010, disbursements exceed the amounts budgeted in the debt service, and capital projects functions.

**City of Manchester**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2010 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:

|  |                  |
|--|------------------|
| ABCM Corporation, due in monthly installments of \$167, beginning April 1, 2006 through March 1, 2011. The note bears no interest and is unsecured.        | \$ 1,500         |
| Bill Corcoran, due in annual installments of \$759, beginning May 1, 2010 through April 1, 2014. The note bears no interest and is unsecured.              | 2,908            |
| 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. | 1,568            |
| 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.          | 6,000            |
| Schau LLC due in monthly installments of \$167, beginning January 1, 2010 through December 1, 2014. The loan bears no interest and is unsecured.           | <u>8,999</u>     |
| Total  | \$ <u>20,975</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<br>June 30 | General Obligation Bonds |                    | State Revolving Fund<br>Revenue Bonds |                    | Total               |                    |
|------------------------|--------------------------|--------------------|---------------------------------------|--------------------|---------------------|--------------------|
|                        | Principal                | Interest           | Principal                             | Interest           | Principal           | Interest           |
|                        | 2011                     | \$ 881,000         | \$ 225,998                            | \$ 230,000         | \$ 171,653          | \$ 1,111,000       |
| 2012                   | 902,000                  | 199,681            | 237,000                               | 170,400            | 1,139,000           | 370,081            |
| 2013                   | 918,000                  | 173,423            | 245,000                               | 163,290            | 1,163,000           | 336,713            |
| 2014                   | 938,000                  | 145,255            | 253,000                               | 155,940            | 1,191,000           | 301,195            |
| 2015                   | 830,000                  | 115,185            | 261,000                               | 148,350            | 1,091,000           | 263,535            |
| 2016-2020              | 1,971,000                | 248,837            | 1,438,000                             | 619,050            | 3,409,000           | 867,887            |
| 2021-2025              | 232,000                  | 46,279             | 1,687,000                             | 388,890            | 1,919,000           | 435,169            |
| 2026-2029              | <u>99,000</u>            | <u>5,737</u>       | <u>1,118,945</u>                      | <u>106,560</u>     | <u>1,217,945</u>    | <u>112,297</u>     |
| Total                  | <u>\$6,771,000</u>       | <u>\$1,160,395</u> | <u>\$5,469,945</u>                    | <u>\$1,924,133</u> | <u>\$12,240,945</u> | <u>\$3,084,528</u> |

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

**General Obligation Refunding Notes**

On May 15, 2010 the City issued \$1,865,000 of general obligation corporate purpose and refunding notes with interest rates ranging from 1.10% to 3.60%. These were issued to refund general obligation bonds series 2004 dated July 1, 2004. General obligation bonds series 2004 were called for redemption as of June 1, 2010, and were retired as of June 30, 2010.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$5,469,945 of the bonds outstanding as of June 30, 2010. 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, 2010 was \$7,394,078. For the current year, principal and interest paid and total customer net receipts were \$259,344 and \$585,151, 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 fund.
- (b) 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.
- (c) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110%, of the amount of principal and interest on the bonds falling due in the same year.

**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.

**City of Manchester**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 PENSION AND RETIREMENT BENEFITS (continued)**

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010, 2009 and 2008 were \$116,739, \$105,121 and \$95,163, respectively, equal to the required contributions for each year.

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 100 days. Upon retirement or death, 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, 2010, primarily relating to the General Fund, Special Revenue Funds, and Enterprise Funds, is as follows:

| <u>Type of benefit</u> | <u>Amount</u>     |
|------------------------|-------------------|
| Vacation               | \$ 92,937         |
| Sick leave             | <u>470,025</u>    |
| Total                  | <u>\$ 562,962</u> |

This liability has been computed based on rates of pay in effect as of June 30, 2010.

**NOTE 7 LEASE AGREEMENTS**

Lease agreements for the City of Manchester as of June 30, 2010 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.

**City of Manchester**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LEASE AGREEMENTS (continued)**

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.

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. Subsequent to year end the lease was renewed to June 1, 2013.

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 lease agreement 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 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 automatically renews and extends for up to 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, 2010 is as follows:

| <u>Transfer to</u>    | <u>Transfer from</u>   | <u>Amount</u>                                       |
|-----------------------|--|---|
| General fund          | Nonmajor governmental funds<br>Local option sales tax                          | \$ 498,652<br><u>40,000</u><br>538,652              |
| Debt service fund     | Tax increment fund<br>Debt service fund<br>Sewer fund                          | 250,535<br>540,000<br><u>84,455</u><br>874,990      |
| Street projects       | Debt service fund<br>Franchise fees gas and electric<br>Local option sales tax | 1,255,000<br>120,000<br><u>360,000</u><br>1,735,000 |
| Nonmajor governmental | General fund<br>Debt service fund<br>Nonmajor governmental funds               | 40,264<br>30,000<br><u>22,655</u><br>92,919         |
| Total                 |  | <u>\$3,241,561</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 \$16,033 during the year ended June 30, 2010.

**NOTE 10 INTERFUND LOANS**

The City has the following interfund loans at June 30, 2010:

|  |                 |
|--|-----------------|
| Special Revenue Fund, Tax Increment Financing from Special Revenue,<br>Street Equipment Reserve at 5.00% per annum | \$ <u>9,145</u> |
|--|-----------------|

**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, 2010 \$301,492 has been advanced on the loan agreement.

**City of Manchester**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 ECONOMIC DEVELOPMENT LOANS (continued)**

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.

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, 2010:

|                           |                   |
|---------------------------|-------------------|
| Sewer Utility             | \$ 49,310         |
| CDBG Housing              | 169,443           |
| FEMA Property Acquisition | <u>287,414</u>    |
|                           | <u>\$ 506,167</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 \$2,924,000. The unpaid contract balances as of June 30, 2010 totaled approximately \$1,130,000, 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, 2010.

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, 2010 totaled \$11,811. At June 30, 2010 the City had obligations to two employees for the health insurance portion of the early retirement plan with annual expenditures estimated to be \$9,600 per year until the employees become 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, 2010:

|                       |           |
|-----------------------|-----------|
| Active employees      | 32        |
| Retired employees     | <u>4</u>  |
| Total plan membership | <u>36</u> |

**NOTE 19 SUBSEQUENT EVENTS**

The City withdrew \$440,055 on existing outstanding state revolving revenue bonds for sewer improvements on November 5, 2010.

The City issued \$550,000 General Obligation Water Improvement Bonds, Series 2010B.

**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, 2010

|  | <b>Governmental<br/>funds<br/>actual</b> | <b>Proprietary<br/>funds<br/>actual</b> | <b>Total</b>        |
|--|--|---|---------------------|
| <b>RECEIPTS</b>  |  |   |                     |
| Property taxes   | \$2,266,457                              | \$ -                                    | \$2,266,457         |
| Tax increment financing collections  | 329,835                                  | -                                       | 329,835             |
| Other city tax   | 481,171                                  | -                                       | 481,171             |
| Licenses and permits   | 26,796                                   | -                                       | 26,796              |
| Use of money and property  | 36,098                                   | 18,228                                  | 54,326              |
| Charges for services   | 449,380                                  | 1,580,186                               | 2,029,566           |
| Intergovernmental  | 1,606,068                                | 206,726                                 | 1,812,794           |
| Special assessments  | 97,815                                   | 1,007                                   | 98,822              |
| Miscellaneous  | <u>300,550</u>                           | <u>3,138</u>                            | <u>303,688</u>      |
| Total receipts   | <u>5,594,170</u>                         | <u>1,809,285</u>                        | <u>7,403,455</u>    |
| <b>DISBURSEMENTS</b>   |  |   |                     |
| Public safety  | 1,205,421                                | -                                       | 1,205,421           |
| Public works   | 1,073,190                                | -                                       | 1,073,190           |
| Culture and recreation   | 731,011                                  | -                                       | 731,011             |
| Community and economic development   | 198,688                                  | -                                       | 198,688             |
| General government   | 205,237                                  | -                                       | 205,237             |
| Debt service   | 1,529,018                                | 278,644                                 | 1,807,662           |
| Capital projects   | 2,017,135                                | 2,064,221                               | 4,081,356           |
| Business type activities   | -  | <u>1,110,265</u>                        | <u>1,110,265</u>    |
| Total disbursements  | <u>6,959,700</u>                         | <u>3,453,130</u>                        | <u>10,412,830</u>   |
| (Deficiency) of receipts (under) disbursements   | (1,365,530)                              | (1,643,845)                             | (3,009,375)         |
| <b>OTHER FINANCING SOURCES, net</b>  | <u>1,942,928</u>                         | <u>1,264,450</u>                        | <u>3,207,378</u>    |
| Excess (deficiency) of receipts and other financing sources<br>over (under) disbursements and other financing uses | 577,398                                  | (379,395)                               | 198,003             |
| <b>BALANCES, beginning of year</b>   | <u>2,793,253</u>                         | <u>484,538</u>                          | <u>3,277,791</u>    |
| <b>BALANCES, end of year</b>   | <u>\$3,370,651</u>                       | <u>\$ 105,143</u>                       | <u>\$ 3,475,794</u> |

See accompanying independent auditor's report.

| <u>Budgeted amounts</u> |                     | <u>Final to total<br/>variance</u> |
|-------------------------|---------------------|------------------------------------|
| <u>Original</u>         | <u>Final</u>        |                                    |
| \$ 2,175,598            | \$ 2,175,598        | \$ 90,859                          |
| 321,245                 | 321,245             | 8,590                              |
| 561,000                 | 561,000             | (79,829)                           |
| 26,130                  | 26,130              | 666                                |
| 74,380                  | 74,380              | (20,054)                           |
| 2,188,075               | 2,188,075           | (158,509)                          |
| 1,359,967               | 2,854,967           | (1,042,173)                        |
| 196,990                 | 196,990             | (98,168)                           |
| <u>195,810</u>          | <u>310,810</u>      | <u>(7,122)</u>                     |
| <u>7,099,195</u>        | <u>8,709,195</u>    | <u>(1,305,740)</u>                 |
| 1,173,417               | 1,251,837           | (46,416)                           |
| 1,117,411               | 1,121,290           | 48,100                             |
| 709,266                 | 769,061             | 38,050                             |
| 178,722                 | 229,492             | 30,804                             |
| 230,622                 | 230,622             | 25,385                             |
| 970,041                 | 1,550,041           | (257,621)                          |
| 1,541,000               | 2,838,770           | (1,242,586)                        |
| <u>4,797,962</u>        | <u>2,897,691</u>    | <u>1,787,426</u>                   |
| <u>10,718,441</u>       | <u>10,888,804</u>   | <u>475,974</u>                     |
| (3,619,246)             | (2,179,609)         | (829,766)                          |
| <u>2,500,000</u>        | <u>3,861,322</u>    | <u>(653,944)</u>                   |
| (1,119,246)             | 1,681,713           | (1,483,710)                        |
| <u>5,247,622</u>        | <u>3,278,005</u>    | <u>(98,466)</u>                    |
| <u>\$ 4,128,376</u>     | <u>\$ 4,959,718</u> | <u>\$(1,582,176)</u>               |

**City of Manchester**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**  
**June 30, 2010**

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 \$4,955,000 including an increase in other financing sources and increased budgeted disbursements by \$2,154,041 and including an increase in transfers out that is reflected in other financing sources, net. The net change was an increase of \$2,800,959. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service and capital projects functions.

**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, 2010**

|  | <b>Special revenue</b> |                              |                            |
|--|------------------------|------------------------------|----------------------------|
|  | <b>Road use</b>        | <b>Employee benefit fund</b> | <b>Police special uses</b> |
| <b>RECEIPTS</b>  |                        |                              |                            |
| Property taxes   | \$ —                   | \$ 343,042                   | \$ —                       |
| Use of money and property                                  | —                      | 1,918                        | 83                         |
| Charges for services                                       | —                      | —                            | —                          |
| Intergovernmental  | 487,649                | —                            | 16,350                     |
| Special assessments  | —                      | —                            | —                          |
| Miscellaneous  | —                      | <u>23,777</u>                | <u>10,816</u>              |
| Total receipts   | <u>487,649</u>         | <u>368,737</u>               | <u>27,249</u>              |
| <b>DISBURSEMENTS</b>                                       |                        |                              |                            |
| Public safety  | —                      | —                            | 33,216                     |
| Public works   | 418,346                | —                            | —                          |
| Culture and recreation                                     | —                      | —                            | —                          |
| Community and economic development                         | —                      | —                            | —                          |
| General government   | —                      | 38,338                       | —                          |
| Capital projects   | —                      | —                            | —                          |
| Total disbursements  | <u>418,346</u>         | <u>38,338</u>                | <u>33,216</u>              |
| Excess (deficiency) of receipts over (under) disbursements | <u>69,303</u>          | <u>330,399</u>               | <u>(5,967)</u>             |
| <b>OTHER FINANCING SOURCES (USES)</b>                      |                        |                              |                            |
| Interfund loans  | —                      | —                            | —                          |
| Operating transfers in                                     | —                      | —                            | —                          |
| Operating transfers out                                    | —                      | <u>(459,646)</u>             | <u>—</u>                   |
| Total other financing sources (uses)                       | —                      | <u>(459,646)</u>             | <u>—</u>                   |
| Net change in cash balances                                | 69,303                 | (129,247)                    | (5,967)                    |
| <b>CASH BALANCES (DEFICIT), beginning of year</b>          | <u>263,721</u>         | <u>249,661</u>               | <u>14,005</u>              |
| <b>CASH BALANCES (DEFICIT), end of year</b>                | <u>\$ 333,024</u>      | <u>\$ 120,414</u>            | <u>\$ 8,038</u>            |
| <b>CASH BASIS FUND BALANCES (DEFICIT)</b>                  |                        |                              |                            |
| Unreserved   |                        |                              |                            |
| Special revenue funds                                      | \$ 333,024             | \$ 120,414                   | \$ 8,038                   |
| Capital projects fund                                      | <u>—</u>               | <u>—</u>                     | <u>—</u>                   |
| Total cash basis fund balances (deficit)                   | <u>\$ 333,024</u>      | <u>\$ 120,414</u>            | <u>\$ 8,038</u>            |

Special revenue

| <u>Tirrill<br/>Trust</u> | <u>COPS<br/>program</u> | <u>Police<br/>canine<br/>program</u> | <u>Park gift<br/>&amp; trust</u> | <u>Park<br/>improvement</u> |
|--------------------------|-------------------------|--------------------------------------|----------------------------------|-----------------------------|
| \$ -                     | \$ -                    | \$ -                                 | \$ -                             | \$ -                        |
| 30                       | -                       | 22                                   | 145                              | 178                         |
| -                        | -                       | -                                    | 3,445                            | -                           |
| -                        | -                       | -                                    | 500                              | -                           |
| -                        | -                       | -                                    | -                                | -                           |
| <u>1,525</u>             | <u>4,000</u>            | <u>10</u>                            | <u>6,814</u>                     | <u>22,306</u>               |
| <u>1,555</u>             | <u>4,000</u>            | <u>32</u>                            | <u>10,904</u>                    | <u>22,484</u>               |
| -                        | -                       | 1,175                                | -                                | -                           |
| -                        | -                       | -                                    | -                                | -                           |
| -                        | -                       | -                                    | 8,214                            | 33,713                      |
| -                        | -                       | -                                    | -                                | -                           |
| -                        | -                       | -                                    | -                                | -                           |
| <u>-</u>                 | <u>-</u>                | <u>-</u>                             | <u>-</u>                         | <u>-</u>                    |
| <u>-</u>                 | <u>-</u>                | <u>1,175</u>                         | <u>8,214</u>                     | <u>33,713</u>               |
| <u>1,555</u>             | <u>4,000</u>            | <u>(1,143)</u>                       | <u>2,690</u>                     | <u>(11,229)</u>             |
| -                        | -                       | -                                    | -                                | -                           |
| -                        | -                       | -                                    | -                                | 22,955                      |
| <u>-</u>                 | <u>(4,006)</u>          | <u>-</u>                             | <u>-</u>                         | <u>-</u>                    |
| <u>-</u>                 | <u>(4,006)</u>          | <u>-</u>                             | <u>-</u>                         | <u>22,955</u>               |
| 1,555                    | (6)                     | (1,143)                              | 2,690                            | 11,726                      |
| <u>8,436</u>             | <u>6</u>                | <u>7,121</u>                         | <u>17,211</u>                    | <u>30,658</u>               |
| <u>\$ 9,991</u>          | <u>\$ -</u>             | <u>\$ 5,978</u>                      | <u>\$ 19,901</u>                 | <u>\$ 42,384</u>            |
| \$ 9,991                 | \$ -                    | \$ 5,978                             | \$ 19,901                        | \$ 42,384                   |
| <u>-</u>                 | <u>-</u>                | <u>-</u>                             | <u>-</u>                         | <u>-</u>                    |
| <u>\$ 9,991</u>          | <u>\$ -</u>             | <u>\$ 5,978</u>                      | <u>\$ 19,901</u>                 | <u>\$ 42,384</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, 2010**

|   | <b>Special revenue</b>    |                               |   |
|---|---------------------------|-------------------------------|---|
|   | <b>Sports<br/>complex</b> | <b>Fire truck<br/>reserve</b> | <b>Rescue<br/>squad<br/>replacement</b> |
| <b>RECEIPTS</b>   |                           |                               |   |
| Property taxes  | \$ —                      | \$ —                          | \$ —                                    |
| Use of money and property                                     | 18                        | 1,329                         | 212                                     |
| Charges for services  | —                         | —                             | —                                       |
| Intergovernmental   | —                         | —                             | —                                       |
| Special assessments   | —                         | —                             | —                                       |
| Miscellaneous   | 4,900                     | 824                           | —                                       |
| Total receipts  | 4,918                     | 2,153                         | 212                                     |
| <b>DISBURSEMENTS</b>  |                           |                               |   |
| Public safety   | —                         | —                             | —                                       |
| Public works  | —                         | —                             | —                                       |
| Culture and recreation  | 4,900                     | —                             | —                                       |
| Community and economic development                            | —                         | —                             | —                                       |
| General government  | —                         | —                             | —                                       |
| Capital projects  | —                         | —                             | —                                       |
| Total disbursements   | 4,900                     | —                             | —                                       |
| Excess (deficiency) of receipts<br>over (under) disbursements | 18                        | 2,153                         | 212                                     |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                           |                               |   |
| Interfund loans   | —                         | —                             | —                                       |
| Operating transfers in  | —                         | 14,009                        | —                                       |
| Operating transfers out                                       | —                         | —                             | —                                       |
| Total other financing sources (uses)                          | —                         | 14,009                        | —                                       |
| Net change in cash balances                                   | 18                        | 16,162                        | 212                                     |
| <b>CASH BALANCES (DEFICIT), beginning of year</b>             | 4,162                     | 184,253                       | 26,322                                  |
| <b>CASH BALANCES (DEFICIT), end of year</b>                   | \$ 4,180                  | \$ 200,415                    | \$ 26,534                               |
| <b>CASH BASIS FUND BALANCES (DEFICIT)</b>                     |                           |                               |   |
| Unreserved  |                           |                               |   |
| Special revenue funds   | \$ 4,180                  | \$ 200,415                    | \$ 26,534                               |
| Capital project fund  | —                         | —                             | —                                       |
| Total cash basis fund balances (deficit)                      | \$ 4,180                  | \$ 200,415                    | \$ 26,534                               |

| <b>Special revenue</b>                             |                            |                                       |                               |                                 |  |
|--|----------------------------|---------------------------------------|-------------------------------|---------------------------------|--|
| <b>Housing acquisition/<br/>demolition project</b> | <b>Lorna Stewart Trust</b> | <b>Holiday decoration replacement</b> | <b>Library gift and trust</b> | <b>Street equipment reserve</b> | <b>Economic development revolving fund</b> |
| \$ -   | \$ -                       | \$ -                                  | \$ -                          | \$ -                            | \$ -                                       |
| 37   | 40                         | -                                     | 354                           | 284                             | -  |
| -  | -                          | -                                     | -                             | -                               | -  |
| -  | -                          | -                                     | 6,257                         | -                               | -  |
| -  | -                          | -                                     | -                             | -                               | -  |
| <u>1,752</u>                                       | <u>-</u>                   | <u>-</u>                              | <u>9,439</u>                  | <u>39,265</u>                   | <u>-</u>                                   |
| <u>1,789</u>                                       | <u>40</u>                  | <u>-</u>                              | <u>16,050</u>                 | <u>39,549</u>                   | <u>-</u>                                   |
| -  | -                          | -                                     | -                             | -                               | -  |
| -  | -                          | -                                     | -                             | 135,565                         | -  |
| -  | 9                          | 2,981                                 | 15,148                        | -                               | -  |
| 8,973  | -                          | -                                     | -                             | -                               | -  |
| -  | -                          | -                                     | -                             | -                               | -  |
| -  | -                          | -                                     | -                             | -                               | -  |
| <u>8,973</u>                                       | <u>9</u>                   | <u>2,981</u>                          | <u>15,148</u>                 | <u>135,565</u>                  | <u>-</u>                                   |
| <u>(7,184)</u>                                     | <u>31</u>                  | <u>(2,981)</u>                        | <u>902</u>                    | <u>(96,016)</u>                 | <u>-</u>                                   |
| -  | -                          | -                                     | -                             | 15,000                          | -  |
| 30,000   | -                          | 3,300                                 | -                             | -                               | -  |
| -  | -                          | -                                     | -                             | -                               | -  |
| <u>30,000</u>                                      | <u>-</u>                   | <u>3,300</u>                          | <u>-</u>                      | <u>15,000</u>                   | <u>-</u>                                   |
| 22,816   | 31                         | 319                                   | 902                           | (81,016)                        | -  |
| <u>12,802</u>                                      | <u>2,907</u>               | <u>666</u>                            | <u>46,466</u>                 | <u>131,507</u>                  | <u>659</u>                                 |
| <u>\$ 35,618</u>                                   | <u>\$ 2,938</u>            | <u>\$ 985</u>                         | <u>\$ 47,368</u>              | <u>\$ 50,491</u>                | <u>\$ 659</u>                              |
| \$ 35,618  | \$ 2,938                   | \$ 985                                | \$ 47,368                     | \$ 50,491                       | \$ 659                                     |
| <u>-</u>   | <u>-</u>                   | <u>-</u>                              | <u>-</u>                      | <u>-</u>                        | <u>-</u>                                   |
| <u>\$ 35,618</u>                                   | <u>\$ 2,938</u>            | <u>\$ 985</u>                         | <u>\$ 47,368</u>              | <u>\$ 50,491</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, 2010**

|   | <u>Capital projects</u>                   |                         |  |  |
|---|---|-------------------------|--|--|
|   | <u>Downtown<br/>incentive<br/>program</u> | <u>CDBG<br/>housing</u> | <u>Bikeway<br/>walkway<br/>project</u> | <u>Street<br/>improvement<br/>fund</u> |
| <b>RECEIPTS</b>   |   |                         |  |  |
| Property taxes  | \$ -                                      | \$ -                    | \$ -                                   | \$ -                                   |
| Use of money and property                                     | 84  | -                       | -                                      | 152                                    |
| Charges for services  | -   | -                       | -                                      | -                                      |
| Intergovernmental   | -   | 39,376                  | 85,777                                 | -                                      |
| Special assessments   | -   | -                       | -                                      | 82,111                                 |
| Miscellaneous   | 6,479                                     | 3,000                   | -                                      | -                                      |
| Total receipts  | <u>6,563</u>                              | <u>42,376</u>           | <u>85,777</u>                          | <u>82,263</u>                          |
| <b>DISBURSEMENTS</b>  |   |                         |  |  |
| Public safety   | -   | -                       | -                                      | -                                      |
| Public works  | -   | -                       | -                                      | 19,194                                 |
| Culture and recreation  | -   | -                       | -                                      | -                                      |
| Community and economic development                            | -   | -                       | -                                      | -                                      |
| General government  | -   | -                       | -                                      | -                                      |
| Capital projects  | <u>27,019</u>                             | <u>59,312</u>           | <u>8,031</u>                           | <u>25,486</u>                          |
| Total disbursements   | <u>27,019</u>                             | <u>59,312</u>           | <u>8,031</u>                           | <u>44,680</u>                          |
| Excess (deficiency) of receipts<br>over (under) disbursements | <u>(20,456)</u>                           | <u>(16,936)</u>         | <u>77,746</u>                          | <u>37,583</u>                          |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |   |                         |  |  |
| Interfund loans   | -   | -                       | -                                      | -                                      |
| Operating transfers in  | -   | -                       | -                                      | 22,655                                 |
| Operating transfers out                                       | -   | -                       | (22,655)                               | (35,000)                               |
| Total other financing sources (uses)                          | -   | -                       | (22,655)                               | (12,345)                               |
| Net change in cash balances                                   | (20,456)                                  | (16,936)                | 55,091                                 | 25,238                                 |
| <b>CASH BALANCES (DEFICIT), beginning of year</b>             | <u>49,917</u>                             | <u>(152,507)</u>        | <u>(55,091)</u>                        | <u>192</u>                             |
| <b>CASH BALANCES (DEFICIT), end of year</b>                   | <u>\$ 29,461</u>                          | <u>\$ (169,443)</u>     | <u>\$ -</u>                            | <u>\$ 25,430</u>                       |
| <b>CASH BASIS FUND BALANCES (DEFICIT)</b>                     |   |                         |  |  |
| Unreserved  |   |                         |  |  |
| Special revenue funds   | \$ -                                      | \$ -                    | \$ -                                   | \$ -                                   |
| Capital project fund  | <u>29,461</u>                             | <u>(169,443)</u>        | <u>-</u>                               | <u>25,430</u>                          |
| Total cash basis fund balances (deficit)                      | <u>\$ 29,461</u>                          | <u>\$ (169,443)</u>     | <u>\$ -</u>                            | <u>\$ 25,430</u>                       |

Capital projects

| <u>FEMA<br/>property<br/>acquisition</u> | <u>Capital<br/>projects -<br/>levied</u> | <u>Total</u>      |
|--|--|-------------------|
| \$ -                                     | \$ -                                     | \$ 343,042        |
| -  | 152                                      | 5,038             |
| -  | -  | 3,445             |
| 296,890                                  | -  | 932,799           |
| -  | -  | 82,111            |
| <u>8,992</u>                             | <u>-</u>                                 | <u>143,899</u>    |
| <u>305,882</u>                           | <u>152</u>                               | <u>1,510,334</u>  |
| -  | -  | 34,391            |
| -  | -  | 573,105           |
| -  | -  | 64,965            |
| -  | -  | 8,973             |
| -  | -  | 38,338            |
| <u>469,135</u>                           | <u>29,757</u>                            | <u>618,740</u>    |
| <u>469,135</u>                           | <u>29,757</u>                            | <u>1,338,512</u>  |
| <u>(163,253)</u>                         | <u>(29,605)</u>                          | <u>171,822</u>    |
| -  | -  | 15,000            |
| -  | -  | 92,919            |
| <u>-</u>                                 | <u>-</u>                                 | <u>(521,307)</u>  |
| <u>-</u>                                 | <u>-</u>                                 | <u>(413,388)</u>  |
| (163,253)                                | (29,605)                                 | (241,566)         |
| <u>(124,161)</u>                         | <u>72,627</u>                            | <u>791,540</u>    |
| \$ <u>(287,414)</u>                      | \$ <u>43,022</u>                         | \$ <u>549,974</u> |
| \$ -                                     | \$ -                                     | \$ 908,918        |
| <u>(287,414)</u>                         | <u>43,022</u>                            | <u>(358,944)</u>  |
| \$ <u>(287,414)</u>                      | \$ <u>43,022</u>                         | \$ <u>549,974</u> |

**City of Manchester**  
**SCHEDULE OF INDEBTEDNESS**  
**For the year ended June 30, 2010**

| <u>Obligation</u>                         | <u>Date of issue</u> | <u>Interest rates</u> | <u>Amount originally issued</u> |
|---|----------------------|-----------------------|---------------------------------|
| Essential Corporate Purpose               | July 1, 2004         | 3.70 to 4.10%         | \$ 2,375,000                    |
| Essential Corporate Purpose               | November 1, 2005     | 3.60 to 3.65%         | 2,450,000                       |
| Essential Corporate Purpose               | October 1, 2007      | 3.75 to 4.05%         | 715,000                         |
| Fire Station                              | February 15, 2008    | 3.85%                 | 800,000                         |
| Essential Corporate Purpose               | July 1, 2008         | 3.10 to 4.10%         | 2,645,000                       |
| Essential Corporate Purpose and Refunding | May 15, 2010         | 1.10 to 3.60%         | <u>1,865,000</u>                |
| Total                                     |                      |                       | <u>\$10,850,000</u>             |
| State Revolving Fund<br>Revenue Bonds     | July 2, 2009         | 3.00%                 | <u>\$ 5,569,945</u>             |
| Total                                     |                      |                       | <u>\$ 5,569,945</u>             |

See accompanying independent auditor's report.

Schedule 2

| <u>Balance<br/>beginning<br/>of year</u> | <u>Issued<br/>during<br/>year</u> | <u>Redeemed<br/>during<br/>year</u> | <u>Balance<br/>end<br/>of year</u> | <u>Interest<br/>paid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|
| \$ 665,000                               | \$ —                              | \$ 665,000                          | \$ —                               | \$ 27,060                |
| 1,705,000                                | —                                 | 260,000                             | 1,445,000                          | 61,535                   |
| 655,000                                  | —                                 | 60,000                              | 595,000                            | 25,370                   |
| 766,000                                  | —                                 | 35,000                              | 731,000                            | 29,491                   |
| 2,395,000                                | —                                 | 260,000                             | 2,135,000                          | 86,000                   |
| <u>—</u>                                 | <u>1,865,000</u>                  | <u>—</u>                            | <u>1,865,000</u>                   | <u>—</u>                 |
| <u>\$6,186,000</u>                       | <u>\$1,865,000</u>                | <u>\$1,280,000</u>                  | <u>\$6,771,000</u>                 | <u>\$ 229,456</u>        |
| <br>                                     |                                   |                                     |                                    |                          |
| <u>\$4,221,040</u>                       | <u>\$1,348,905</u>                | <u>\$ 100,000</u>                   | <u>\$5,469,945</u>                 | <u>\$ 159,344</u>        |
| <u>\$4,221,040</u>                       | <u>\$1,348,905</u>                | <u>\$ 100,000</u>                   | <u>\$5,469,945</u>                 | <u>\$ 159,344</u>        |

**City of Manchester**  
**BOND AND NOTE MATURITIES**  
**June 30, 2010**

| Year ending<br>June 30 | <b>General Obligation Bonds</b>        |                    |  |                   |                                 |                   |
|------------------------|--|--------------------|--|-------------------|---------------------------------|-------------------|
|                        | <b>Essential Corporate<br/>Purpose</b> |                    | <b>Essential Corporate<br/>Purpose</b> |                   | <b>Fire Station</b>             |                   |
|                        | <b>Issued November 1, 2005</b>         |                    | <b>Issued October 1, 2007</b>          |                   | <b>Issued February 15, 2008</b> |                   |
|                        | <b>Interest<br/>Rates</b>              | <b>Amount</b>      | <b>Interest<br/>Rates</b>              | <b>Amount</b>     | <b>Interest<br/>Rates</b>       | <b>Amount</b>     |
| 2011                   | 3.60%                                  | \$ 270,000         | 3.75%                                  | \$ 65,000         | 3.85%                           | \$ 36,000         |
| 2012                   | 3.60%                                  | 280,000            | 3.75%                                  | 65,000            | 3.85%                           | 37,000            |
| 2013                   | 3.60%                                  | 285,000            | 3.80%                                  | 70,000            | 3.85%                           | 38,000            |
| 2014                   | 3.60%                                  | 300,000            | 3.85%                                  | 75,000            | 3.85%                           | 38,000            |
| 2015                   | 3.65%                                  | 310,000            | 3.90%                                  | 75,000            | 3.85%                           | 40,000            |
| 2016                   |  | —                  | 3.95%                                  | 80,000            | 3.85%                           | 41,000            |
| 2017                   |  | —                  | 4.00%                                  | 80,000            | 3.85%                           | 42,000            |
| 2018                   |  | —                  | 4.05%                                  | 85,000            | 3.85%                           | 42,000            |
| 2019                   |  | —                  |  | —                 | 3.85%                           | 43,000            |
| 2020                   |  | —                  |  | —                 | 3.85%                           | 43,000            |
| 2021                   |  | —                  |  | —                 | 3.85%                           | 44,000            |
| 2022                   |  | —                  |  | —                 | 3.85%                           | 45,000            |
| 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            |
| 2028                   |  | —                  |  | —                 | 3.85%                           | —                 |
| Totals                 |  | <u>\$1,445,000</u> |  | <u>\$ 595,000</u> |                                 | <u>\$ 731,000</u> |

See accompanying independent auditor's report.

**City of Manchester**  
**BOND AND NOTE MATURITIES (continued)**  
**June 30, 2010**

| Year ending<br>June 30 | <u>General Obligation Bonds</u>                                |                    |  |                    |                    | <u>State<br/>Revolving Fund<br/>Issued July 2, 2008</u> |                    |
|------------------------|--|--------------------|--|--------------------|--------------------|---|--------------------|
|                        | <u>Essential Corporate<br/>Purpose<br/>Issued July 1, 2008</u> |                    | <u>Essential Corporate<br/>Purpose and Refunding<br/>Issued May 15, 2010</u> |                    | <u>Total</u>       |   |                    |
|                        | <u>Interest<br/>Rates</u>                                      | <u>Amount</u>      | <u>Interest<br/>Rates</u>  | <u>Amount</u>      |                    |   |                    |
|                        | <u>Interest<br/>Rates</u>                                      | <u>Amount</u>      | <u>Interest<br/>Rates</u>  | <u>Amount</u>      |                    |   |                    |
| 2011                   | 3.10%  | \$ 265,000         | 1.10%  | \$ 245,000         | \$ 881,000         | 3.00%   | \$ 230,000         |
| 2012                   | 3.30%  | 265,000            | 1.40%  | 255,000            | 902,000            | 3.00%   | 237,000            |
| 2013                   | 3.50%  | 270,000            | 1.70%  | 255,000            | 918,000            | 3.00%   | 245,000            |
| 2014                   | 3.70%  | 260,000            | 2.00%  | 265,000            | 938,000            | 3.00%   | 253,000            |
| 2015                   | 3.85%  | 270,000            | 2.40%  | 135,000            | 830,000            | 3.00%   | 261,000            |
| 2016                   | 3.95%  | 310,000            | 2.75%  | 135,000            | 566,000            | 3.00%   | 270,000            |
| 2017                   | 4.00%  | 245,000            | 3.00%  | 135,000            | 502,000            | 3.00%   | 278,000            |
| 2018                   | 4.10%  | 250,000            | 3.25%  | 145,000            | 522,000            | 3.00%   | 287,000            |
| 2019                   |  | —                  | 3.40%  | 145,000            | 188,000            | 3.00%   | 297,000            |
| 2020                   |  | —                  | 3.60%  | 150,000            | 193,000            | 3.00%   | 306,000            |
| 2021                   |  | —                  |  | —                  | 44,000             | 3.00%   | 316,000            |
| 2022                   |  | —                  |  | —                  | 45,000             | 3.00%   | 327,000            |
| 2023                   |  | —                  |  | —                  | 47,000             | 3.00%   | 337,000            |
| 2024                   |  | —                  |  | —                  | 48,000             | 3.00%   | 348,000            |
| 2025                   |  | —                  |  | —                  | 48,000             | 3.00%   | 359,000            |
| 2026                   |  | —                  |  | —                  | 49,000             | 3.00%   | 371,000            |
| 2027                   |  | —                  |  | —                  | 50,000             | 3.00%   | 383,000            |
| 2028                   |  | —                  |  | —                  | —                  | 3.00%   | 364,945            |
| Totals                 |  | <u>\$2,135,000</u> |  | <u>\$1,865,000</u> | <u>\$6,771,000</u> |   | <u>\$5,469,945</u> |

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

|                                     | <b>Year ended June 30</b> |                    |                    |
|-------------------------------------|---------------------------|--------------------|--------------------|
|                                     | <b>2010</b>               | <b>2009</b>        | <b>2008</b>        |
| <b>RECEIPTS</b>                     |                           |                    |                    |
| Property tax                        | \$2,266,457               | \$2,141,137        | \$1,898,935        |
| Tax increment financing collections | 329,835                   | 366,070            | 213,627            |
| Other city taxes                    | 481,171                   | 519,710            | 448,700            |
| Licenses and permits                | 26,796                    | 64,698             | 65,310             |
| Use of money and property           | 36,098                    | 53,667             | 75,557             |
| Intergovernmental                   | 1,606,068                 | 1,276,460          | 950,759            |
| Charges for services                | 449,380                   | 456,697            | 475,543            |
| Special assessments                 | 97,815                    | 152,715            | 197,318            |
| Miscellaneous                       | <u>300,550</u>            | <u>309,807</u>     | <u>673,164</u>     |
| Total receipts                      | <u>\$5,594,170</u>        | <u>\$5,340,961</u> | <u>\$4,998,913</u> |
| <b>DISBURSEMENTS</b>                |                           |                    |                    |
| Operating                           |                           |                    |                    |
| Public safety                       | \$1,205,421               | \$1,097,889        | \$1,016,739        |
| Public works                        | 1,073,190                 | 1,049,184          | 969,377            |
| Culture and recreation              | 731,011                   | 746,814            | 637,416            |
| Community and economic development  | 198,688                   | 192,906            | 524,084            |
| General government                  | 205,237                   | 232,318            | 493,263            |
| Debt service                        | 1,529,018                 | 1,732,730          | 954,345            |
| Capital projects                    | <u>2,017,135</u>          | <u>3,131,933</u>   | <u>2,177,133</u>   |
| Total disbursements                 | <u>\$6,959,700</u>        | <u>\$8,183,774</u> | <u>\$6,772,357</u> |

See accompanying independent auditor's report.

| <b>Year ended June 30</b> |                    |                    |
|---------------------------|--------------------|--------------------|
| <b><u>2007</u></b>        | <b><u>2006</u></b> | <b><u>2005</u></b> |
| \$1,949,803               | \$1,826,532        | \$1,747,287        |
| 329,300                   | 339,272            | 339,328            |
| 637,168                   | 735,313            | 389,850            |
| 25,191                    | 31,960             | 54,526             |
| 107,776                   | 55,509             | 45,182             |
| 791,705                   | 1,488,351          | 379,864            |
| 451,999                   | 436,288            | 1,349,935          |
| 242,507                   | 181,212            | 116,617            |
| <u>603,488</u>            | <u>200,068</u>     | <u>492,758</u>     |
| <u>\$5,138,937</u>        | <u>\$5,294,505</u> | <u>\$4,915,347</u> |
| <br>                      |                    |                    |
| \$ 946,697                | \$ 998,579         | \$ 928,904         |
| 854,172                   | 952,270            | 900,842            |
| 563,005                   | 630,143            | 551,069            |
| 122,017                   | 738,954            | 526,735            |
| 228,529                   | 308,085            | 162,541            |
| 833,731                   | 833,084            | 1,760,950          |
| <u>1,597,596</u>          | <u>2,998,884</u>   | <u>2,626,556</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, 2010**

| <u>Program</u>   | <u>CFDA<br/>number</u> | <u>Agency<br/>pass-through<br/>number</u> | <u>Program<br/>expenditures</u> |
|--|------------------------|---|---------------------------------|
| Direct   |                        |   |                                 |
| U.S. Department of Homeland Security<br>Operations and Safety Program  |                        |   |                                 |
| Assistance to Fire Fighters Grant Program  | 97.036                 | EMW-2008-FO-01529                         | \$ 38,746                       |
| Assistance to Fire Fighters Grant Program  | 97.036                 | EMW-2009-FO-04543                         | 10,333                          |
| U.S. Department of Justice<br>Office of Justice Programs   |                        |   |                                 |
| Edward Byrne Memorial Justice Assistance<br>Grant Program  | 16.738                 | 2009-SB-B9-2026                           | <u>14,500</u>                   |
|  |                        |   | <u>63,579</u>                   |
| Indirect   |                        |   |                                 |
| U.S. Department of Education<br>Iowa Department of Transportation<br>ARRA State Fiscal Stabilization Fund (SFSF)<br>Government Services, Recovery Act                        | 84.397                 |   | 6,278                           |
| Department of Housing and Urban Development<br>Iowa Department of Economic Development<br>Community Development Block Grants<br>(CDBG) Housing Fund Contract                 | 14.228                 | 07-HSG-084                                | 59,218                          |
| (CDBG) Program Contract  | 14.228                 | 08-WS-041                                 | 206,726                         |
| Home Investment Partnership Program<br>(HOME) Program Master Contract  | 14.239                 | 07-HM-107                                 | 88                              |
| Iowa Homeland Security and Emergency<br>Management Division<br>Hazard Mitigation Grant Program<br>Hazard Mitigation Acquisition Project                                      | 97.039                 |   | 288,390                         |
| U.S. Department of Public Defense<br>Iowa Homeland Security and Emergency<br>Management Division<br>Disaster Grants-Public Assistance<br>(Presidentially Declared Disasters) | 97.034                 |   | <u>83,763</u>                   |
|  |                        |   | <u>644,463</u>                  |
| <b>Total</b>   |                        |   | <b><u>\$ 708,042</u></b>        |

**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.

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
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, 2010, 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 December 15, 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City of Manchester, Iowa's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

We identified certain deficiencies in internal control over financial reporting, described in Part II of the accompanying schedule of findings, that we consider to be significant deficiencies in internal control over financial reporting, including a deficiency we consider to be a material weakness. A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Of the deficiencies noted above, we believe item II-A-10 to be 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, 2010 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 in Part IV of the Schedule of Findings 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  
December 15, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 City of Manchester, Iowa's, compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended June 30, 2010. The City of Manchester, Iowa's major federal programs are 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 programs 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 compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2010. 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**

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item III-B-10 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. However, we identified a deficiency in internal control over compliance that we consider a 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**

West Des Moines, Iowa  
December 15, 2010

**City of Manchester**  
**SCHEDULE OF FINDINGS**  
**Year ended June 30, 2010**

**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 programs were as follows:
  - \*CFDA Number 14.228 - Community Development Block Grant
  - \*CFDA Number 97.039 – Hazard Mitigation Acquisition Project
- (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, 2010**

**Part II – Findings Related to Financial Statements**

**SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESS**

**II-A-10 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-10 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, 2010**

**Part III—Findings Related to Federal Awards**

**INSTANCE OF NONCOMPLIANCE**

CFDA Number 14.228: Community Development Block Grant  
Pass-through agency number: 08-WS-041, 07-HSG-084, 07-HM-107  
Federal award year: 2008, 2007  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development

**III-A-10 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 \$169,443 at June 30, 2010.

**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: 07-HSG-084  
Federal award year: 2008  
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: 08-WS-041  
Federal award year: 2008  
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, 2010**

**Part III—Findings Related to Federal Awards (continued)**

**III-B-10 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, 2010**

**Part IV—Other Findings Related to Statutory Reporting**

**IV-A-10 CERTIFIED BUDGET**

Expenditures during the year ended June 30, 2010 exceeded the amount budgeted in the debt service and capital project functions. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

**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-10 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-10 TRAVEL EXPENSE**

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

**IV-D-10 BUSINESS TRANSACTIONS**

| <u>Name, Title, and Business Co</u>  | <u>Transaction Description</u>  | <u>Amount</u>    |
|--|---------------------------------|------------------|
| Christy Gardner, spouse of Brad Gardner, police officer  | Refund pool pass                | \$ 55            |
| Dave Knaak, spouse of LouAnn Knaak, Library aid  | Repairs at library              | 91               |
| Erica Foley, spouse of Doug Foley, park and recreation director                                  | Recreational program instructor | 415              |
| Kim Corkerly, sister of two employees, Dispatch and fire   | Library cake                    | 37               |
| Mark Fink, fireman   | Snow removal and grading        | 4,011            |
| Mike Corkery, fireman, owner of NE Iowa Telephone Service  | Telephone services and supplies | 6,894            |
| Margie Recker, dispatcher, Owner of Recker Signs   | Sign letter services            | 1,519            |
| Sue Broghammer, owner of Sue's Flower & Garden Center, daughter of Tony Broghammer, City Council | Landscaping supplies            | 1,631            |
| Sue Scherbring, spouse of Bill Scherbring, fireman   | Refund rec fee                  | 30               |
| Jim Wessels, police officer, owner of Wessels Tuckpointing                                       | Building repairs                | <u>1,350</u>     |
|  |                                 | <u>\$ 16,033</u> |

**City of Manchester**  
**SCHEDULE OF FINDINGS (continued)**  
**Year ended June 30, 2010**

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

**IV-D-10 BUSINESS TRANSACTIONS (continued)**

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-10 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-10 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, four were not published within 15 days as required by Chapters 372.13(6) and 380.7 of the Code of Iowa and one was not preceded by proper public notice.

**Recommendation**

The City should comply with Chapter 21 of the Code of Iowa.

**Response**

The City publishes the minutes and preceding notice as soon as possible. The requirements were 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, 2010**

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

**IV-G-10 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-10 REVENUE BONDS/NOTES**

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

**IV-I-10 FINANCIAL CONDITION**

The following funds had deficit balances at June 30, 2010:

|                           |                     |
|---------------------------|---------------------|
| Sewer utility             | \$ (49,310)         |
| CDBG housing              | (169,443)           |
| FEMA property acquisition | <u>(287,414)</u>    |
|                           | <u>\$ (506,167)</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.