

City of Manchester

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

June 30, 2011

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**City of Manchester
OFFICIALS**

<u>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, 2011, 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, 2011, 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 November 28, 2011, 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 the internal control over financial reporting or 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 financial statements for the two years ended June 30, 2010 (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 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 financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the 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 financial statements taken as a whole.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Manchester provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The City's property tax revenues increased by \$95,569, or approximately 4%, to \$2,362,026. Overall revenues increased by \$94,855, or approximately 1%, to \$7,498,310 from fiscal 2010 to fiscal 2011.
- Total disbursements decreased by approximately 20%, or \$2,133,625, to \$8,279,205 from fiscal 2010 to fiscal 2011.
- The City's total cash basis net assets increased by approximately 6%, or \$205,041, to \$3,680,835 from June 30, 2010 to June 30, 2011.

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 and the city's indebtedness. In addition, to the schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the city.

BASIS OF ACCOUNTING

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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.

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

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

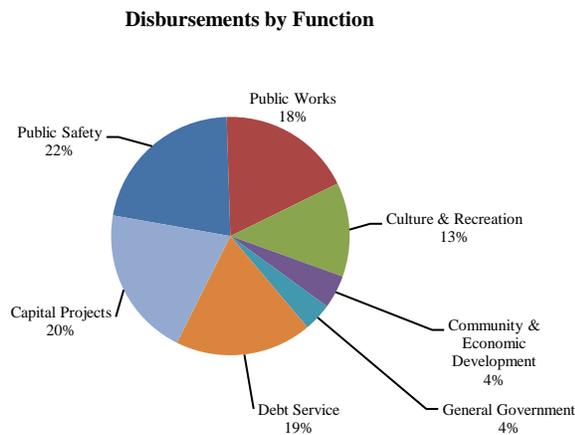
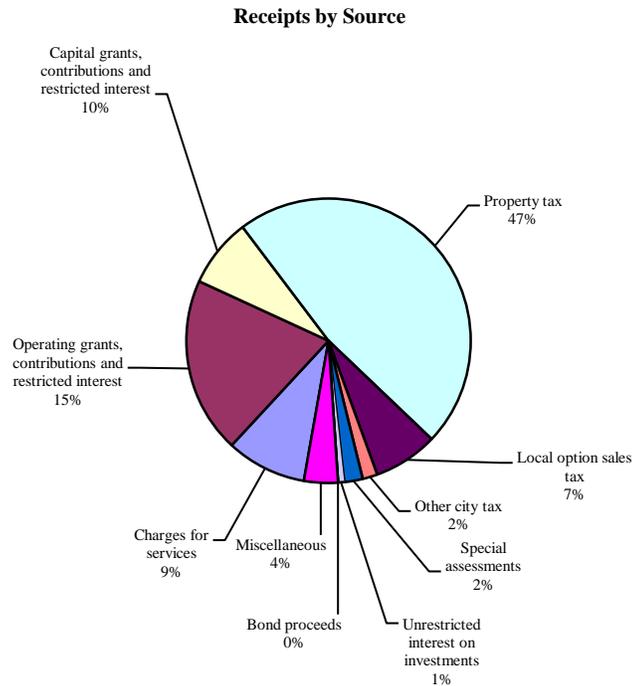
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$3,370,651 to \$3,234,706. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Year ended June 30, 2011	Year ended June 30, 2010
Receipts and transfers:		
Program receipts		
Charges for services	\$ 520,154	\$ 480,706
Operating grants, contributions, and restricted interest	1,139,163	840,426
Capital grants, contributions, and restricted interest	446,893	765,642
General receipts		
Property tax	2,705,330	2,596,292
Local option sales tax	417,478	391,418
Other city tax	96,424	89,753
Special assessments	119,917	97,815
Unrestricted interest on investments	39,240	31,568
Bond proceeds	-	1,858,473
Miscellaneous	219,790	300,550
Interfund loans		
Transfers, net	141,865	84,455
Total receipts	5,846,254	7,537,098
Disbursements		
Public Safety	1,298,604	1,205,421
Public Works	1,091,486	1,073,190
Culture and Recreation	764,461	731,011
Community and Economic Development	269,224	198,688
General Government	229,292	205,237
Debt Service	1,108,798	1,529,018
Capital Projects	1,220,334	2,017,135
Total disbursements	5,982,199	6,959,700
Increase/decrease in cash basis net assets	(135,945)	577,398
Cash basis net assets beginning of year	3,370,651	2,793,253
Cash basis net assets end of year	\$ 3,234,706	\$ 3,370,651

MANAGEMENT'S DISCUSSION AND ANALYSIS



The City's receipts including other financing sources for governmental activities totaled \$5,846,254 for Fiscal 2011. The total cost of all programs and services was \$5,982,199. The net result was a deficit of \$135,945 for Fiscal 2011.

The City increased property tax rates for 2011 from \$15.60186 to \$15.88760. With Residential Rollback, this increase resulted in an additional \$95,569 in property tax revenues.

The cost of all governmental activities this year was \$5,982,199 compared to \$6,959,700 last year. As shown in the Statement of Activities and Net Assets, the amount of property taxes ultimately utilized for these activities was only \$2,705,330 because some of the cost was paid by other city taxes, which include local option taxes primarily \$417,478, and by individuals or entities including governments and organizations who directly benefited from the service \$216,341. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,643,050 as follows: tax revenues specifically designated for use with only certain programs, interest, transfers from other funds and general entitlements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Manchester		
Change in Cash Basis Net Assets of Business Activities		
	Year ended June 30, 2011	Year ended June 30, 2010
Receipts		
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
Total receipts	3,158,190	6,241,389
Disbursements and transfers		
Water	600,652	994,781
Sewer	2,852,478	6,031,221
Transfers	84,455	86,852
Total disbursements and transfers	3,537,585	7,112,854
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	\$ 105,143	\$ 484,538

Total business type activities receipts for the fiscal year were \$2,779,857 compared to \$3,158,190 last year. The cash balance increased by \$340,986 from the prior year due primarily to the completion of the Wastewater Treatment Plant Upgrade Project. Total disbursements and transfers for the fiscal year were \$2,438,871, a decrease of approximately 31% over the prior year. This decrease was, again, primarily due to the completion of the Wastewater Treatment Plant Upgrade Project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL GOVERNMENTAL FUND ANALYSIS

As the City of Manchester completed the year, its governmental funds reported a combined fund balance of \$3,234,706, a decrease of \$135,945 from last year's total of \$3,370,651. 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 \$104,483 from the prior year to \$717,402 due to an increase in program receipts and the reallocation of funds classified as part of the General Fund.

The Tax Increment Fund cash balance decreased by \$141,827 from the prior year to \$292,875. This decrease was due primarily to an increase in debt payments and the transfer of funds to the Downtown Incentive Program.

The Road Use Tax Fund cash balance increased by \$49,981 from the prior year to \$383,005. This increase was due primarily to an increase in road use tax receipts over the prior year.

The Employee Benefit Fund cash balance decreased by \$109,112 from the prior year to \$11,302. 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 Local Option Sales Tax Fund cash balance increased by \$123,679 from the prior year to \$470,620. This increase was due to an increase in receipts and a decrease in street project expenditures.

The Franchise Fee Fund cash balance decreased by \$64,531 from the prior year to \$432,324. This decrease was due to the utilization of these funds to offset street lighting costs.

The Debt Service Fund cash balance increased by \$29,089 from the prior year to \$49,315. This increase was due primarily to the refinancing of the 2004 Bond Issue.

The Housing Acquisition/Demolition Fund cash balance decreased by \$10,148 from the prior year to \$25,470. This decrease was due to costs associated with the demolition of nuisance properties.

The Economic Development Revolving Loan Fund cash balance increased by \$11,133 from the prior year to \$11,792. This increase was due to loan payments received from Lextron Animal Health.

The Downtown Incentive Program Fund cash balance increased by \$54,471 from the prior year to \$83,932. This increase was due to the commitment of additional funding for this program.

The CDBG Housing Grant Fund cash balance increased by \$147,968 from the prior year to a deficit of \$21,475. This increase was due to the receipt of grant funds.

The Street Projects Fund cash balance decreased by \$261,115 from the prior year to \$721,558. The decrease is attributable to grant and bond proceeds expended during this fiscal year for street project work within the City.

The FEMA Property Acquisition Fund cash balance increased by \$126,235 from the prior year to a deficit of \$161,179. This increase was due to the receipt of grant funds.

The Street Improvement Fund cash balance increased by \$10,275 from the prior year to \$35,705. This increase was due to an increase in assessment receipts.

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

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased from \$55,833 to a deficit of \$101,440, due to expenditures associated with the Well 6 Nitrate Removal Project. CDBG grant funds in the amount of \$386,090 for the Well 6 Project were received on July 21, 2011 which offset this deficit.

The Sewer Fund cash balance increased from a balance of \$49,310 to \$547,569 due to the completion of the Wastewater Treatment Plant Improvement Project and the collection of user fees for the bond payment for this project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Manchester amended its budget one time. The amendment was approved on May 31st, 2011. The amendment was needed, in large part, due to the following items: grant funds received for the comprehensive plan, street projects, housing, water improvements, and FEMA property acquisitions; FEMA funds received for 2010 flood damage; a reduction in bond proceeds required; the purchase of ladder truck for the Fire Department; 2010 flood expenses; snow removal; RAGBRAI related expenses; the purchase of a truck for the Building Department; City Hall roof repairs; a reduction in debt payment amount; CDBG housing grant projects; FEMA property acquisition project; water system improvements; reduction in bond for water improvements; and the close out of the Wastewater Treatment Plant project. The additional revenues received by the City absorbed the additional expenditures.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$6,440,000 in general obligation bonds, compared to \$6,771,000 last year, as shown below. Additionally, the City had \$5,680,000 in sewer revenue bonds at June 30, 2011.

City of Manchester		
Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation bonds	\$ 6,440,000	\$ 6,771,000
Urban renewal tax increment revenue bonds	-	-
State Revolving Fund Planning and Design Loan	5,680,000	5,469,945
Total	\$12,120,000	\$12,240,945

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 \$6,440,000 is significantly below its constitutional debt limit of \$13,045,188.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the fiscal year 2012 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 decreased from one year ago. The rate as of December 2011 is 5.0% versus 5.8% in 2010. While the unemployment rate decreased, 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 the same at \$15.88760 in Fiscal 2012.

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, 2011

	<u>Disbursements</u>	<u>Program receipts</u>		
		<u>Charges for service</u>	<u>Operating grants, contributions, and restricted interest</u>	<u>Capital grants, contributions, and restricted interest</u>
FUNCTIONS/PROGRAMS				
Governmental activities				
Public safety	\$1,298,604	\$ 3,179	\$ 192,147	\$ -
Public works	1,091,486	338,643	626,559	-
Culture and recreation	764,461	141,091	33,143	9,285
Community and economic development	269,224	-	287,314	227,299
General government	229,292	37,241	-	-
Debt service	1,108,798	-	-	-
Capital projects	<u>1,220,334</u>	<u>-</u>	<u>-</u>	<u>210,309</u>
Total governmental activities	<u>5,982,199</u>	<u>520,154</u>	<u>1,139,163</u>	<u>446,893</u>
Business type activities				
Water utility	1,292,200	615,264	-	-
Wastewater treatment	<u>1,004,806</u>	<u>1,162,265</u>	<u>-</u>	<u>513</u>
Total business type activities	<u>2,297,006</u>	<u>1,777,529</u>	<u>-</u>	<u>513</u>
Total primary government	<u>\$8,279,205</u>	<u>\$2,297,683</u>	<u>\$1,139,163</u>	<u>\$ 447,406</u>
GENERAL RECEIPTS				
Property tax levied for				
General purposes				
Insurance				
Employee benefits				
Debt service				
Tax increment financing				
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				
NET ASSETS, beginning of year				
NET ASSETS, end of year				
CASH BASIS NET ASSETS				
Restricted				
Debt service				
Streets				
Capital projects				
Other				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements.

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

<u>Governmental activities</u>	<u>Business type activities</u>	<u>Total</u>
\$(1,103,278)	\$ —	\$(1,103,278)
(126,284)	—	(126,284)
(580,942)	—	(580,942)
245,389	—	245,389
(192,051)	—	(192,051)
(1,108,798)	—	(1,108,798)
<u>(1,010,025)</u>	<u>—</u>	<u>(1,010,025)</u>
<u>(3,875,989)</u>	<u>—</u>	<u>(3,875,989)</u>
—	(676,936)	(676,936)
<u>—</u>	<u>157,972</u>	<u>157,972</u>
<u>—</u>	<u>(518,964)</u>	<u>(518,964)</u>
(3,875,989)	(518,964)	(4,394,953)
1,187,546	—	1,187,546
130,432	—	130,432
365,744	—	365,744
678,304	—	678,304
343,304	—	343,304
417,478	—	417,478
96,424	—	96,424
119,917	2,250	122,167
39,240	2,352	41,592
—	985,936	985,936
219,790	11,277	231,067
<u>141,865</u>	<u>(141,865)</u>	<u>—</u>
<u>3,740,044</u>	<u>859,950</u>	<u>4,599,994</u>
(135,945)	340,986	205,041
<u>3,370,651</u>	<u>105,143</u>	<u>3,475,794</u>
<u>\$3,234,706</u>	<u>\$ 446,129</u>	<u>\$3,680,835</u>
\$ 49,315	\$ 310,807	\$ 360,122
383,005	—	383,005
888,918	—	888,918
1,378,720	—	1,378,720
<u>534,748</u>	<u>135,322</u>	<u>670,070</u>
<u>\$3,234,706</u>	<u>\$ 446,129</u>	<u>\$3,680,835</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, 2011

	Special revenue			
	General	Road use tax	Local option sales tax	Franchise fees gas and electric
RECEIPTS				
Property taxes	\$1,317,978	\$ —	\$ —	\$ —
Tax increment financing collections	—	—	—	—
Other city tax	96,424	—	417,478	—
Licenses and permits	29,424	—	—	—
Use of money and property	20,927	—	6,201	9,043
Charges for services	478,970	—	—	—
Intergovernmental	340,905	504,286	—	—
Special assessments	—	—	—	—
Miscellaneous	147,178	—	—	—
Total receipts	<u>2,431,806</u>	<u>504,286</u>	<u>423,679</u>	<u>9,043</u>
DISBURSEMENTS				
Operating				
Public safety	1,291,911	—	—	—
Public works	627,061	454,305	—	—
Culture and recreation	720,495	—	—	—
Community and economic development	244,753	—	—	—
General government	179,643	—	—	—
Debt service	—	—	—	—
Capital projects	—	—	—	—
Total disbursements	<u>3,063,863</u>	<u>454,305</u>	<u>—</u>	<u>—</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(632,057)</u>	<u>49,981</u>	<u>423,679</u>	<u>9,043</u>
OTHER FINANCING SOURCES (USES)				
Interfund loans	9,603	—	—	—
Operating transfers in	538,908	—	—	—
Operating transfers out	(20,937)	—	(300,000)	(73,574)
Total other financing sources (uses)	<u>527,574</u>	<u>—</u>	<u>(300,000)</u>	<u>(73,574)</u>
Net change in cash balances	(104,483)	49,981	123,679	(64,531)
CASH BALANCES , beginning of year, as restated	<u>821,885</u>	<u>333,024</u>	<u>346,941</u>	<u>496,855</u>
CASH BALANCES , end of year	<u>\$ 717,402</u>	<u>\$ 383,005</u>	<u>\$ 470,620</u>	<u>\$ 432,324</u>
CASH BASIS FUND BALANCES (DEFICIT)				
Restricted				
Debt service	\$ —	\$ —	\$ —	\$ —
Special revenue fund	—	383,005	470,620	432,324
Capital project fund	—	—	—	—
Assigned	167,731	—	—	—
Unassigned	<u>549,671</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total cash basis fund balances (deficit)	<u>\$ 717,402</u>	<u>\$ 383,005</u>	<u>\$ 470,620</u>	<u>\$ 432,324</u>

See Notes to Financial Statements.

<u>Capital Projects Street projects</u>	<u>Debt service</u>	<u>Other nonmajor governmental funds</u>	<u>Total</u>
\$ -	\$ 678,304	\$ 365,744	\$2,362,026
-	-	343,304	343,304
-	-	-	513,902
-	-	-	29,424
-	359	9,635	46,165
-	-	4,835	483,805
210,309	-	530,556	1,586,056
22,259	-	97,658	119,917
417	-	72,195	219,790
<u>232,985</u>	<u>678,663</u>	<u>1,423,927</u>	<u>5,704,389</u>
-	-	6,693	1,298,604
-	-	10,120	1,091,486
-	-	43,966	764,461
-	-	24,471	269,224
-	-	49,649	229,292
-	1,108,798	-	1,108,798
<u>904,100</u>	<u>-</u>	<u>316,234</u>	<u>1,220,334</u>
<u>904,100</u>	<u>1,108,798</u>	<u>451,133</u>	<u>5,982,199</u>
<u>(671,115)</u>	<u>(430,135)</u>	<u>972,794</u>	<u>(277,810)</u>
-	-	(9,603)	-
410,000	459,224	100,937	1,509,069
-	-	(972,693)	(1,367,204)
<u>410,000</u>	<u>459,224</u>	<u>(881,359)</u>	<u>141,865</u>
(261,115)	29,089	91,435	(135,945)
<u>982,673</u>	<u>20,226</u>	<u>369,047</u>	<u>3,370,651</u>
\$ <u>721,558</u>	\$ <u>49,315</u>	\$ <u>460,482</u>	\$ <u>3,234,706</u>
\$ -	\$ 49,315	\$ -	\$ 49,315
-	-	475,776	1,761,725
721,558	-	167,360	888,918
-	-	-	167,731
-	-	(182,654)	367,017
\$ <u>721,558</u>	\$ <u>49,315</u>	\$ <u>460,482</u>	\$ <u>3,234,706</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, 2011

	<u>Enterprise Funds</u>		
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
OPERATING RECEIPTS			
Charges for services	\$ 615,264	\$1,162,265	\$1,777,529
Special assessments	2,250	-	2,250
Miscellaneous	<u>11,000</u>	<u>277</u>	<u>11,277</u>
Total operating receipts	<u>628,514</u>	<u>1,162,542</u>	<u>1,791,056</u>
OPERATING DISBURSEMENTS			
Business type activities	<u>459,350</u>	<u>422,914</u>	<u>882,264</u>
Excess of operating receipts over operating disbursements	<u>169,164</u>	<u>739,628</u>	<u>908,792</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)			
Interest on investments	532	1,820	2,352
Intergovernmental	-	513	513
Revenue bond proceeds	550,000	440,055	990,055
Bond discount	(4,119)	-	(4,119)
Capital projects	(826,972)	(165,464)	(992,436)
Debt service	<u>(5,878)</u>	<u>(416,428)</u>	<u>(422,306)</u>
Net nonoperating receipts (disbursements)	<u>(286,437)</u>	<u>(139,504)</u>	<u>(425,941)</u>
Excess receipts (disbursements)	(117,273)	600,124	482,851
TRANSFERS			
Operating transfers out	<u>(40,000)</u>	<u>(101,865)</u>	<u>(141,865)</u>
Net change in cash balances	<u>(157,273)</u>	498,259	340,986
CASH BALANCES , beginning of year	<u>55,833</u>	<u>49,310</u>	<u>105,143</u>
CASH BALANCES (DEFICIT) , end of year	\$ <u>(101,440)</u>	\$ <u>547,569</u>	\$ <u>446,129</u>
CASH BASIS FUND BALANCE (DEFICIT)			
Restricted			
Debt service	\$ -	\$ 310,807	\$ 310,807
Unrestricted	<u>(101,440)</u>	<u>236,762</u>	<u>135,322</u>
Total cash basis fund balances (deficit)	\$ <u>(101,440)</u>	\$ <u>547,569</u>	\$ <u>446,129</u>

See Notes to Financial Statements.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manchester, Iowa (the City) is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, 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
- Delaware County Conference Board
- Delaware County E911 Board
- Manchester Area Chamber of Commerce
- Community Compensation Board-Hotel/Motel Tax
- East Central Intergovernmental Association
- Foundation for the Future of Delaware County
- 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 Statement (continued)

The statement of activities and net assets—cash basis presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City. The City had no such net assets.

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 Road Use Tax fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

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 14 for contingency disclosures regarding this fund.

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 enterprise 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

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.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service function.

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2011 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 had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$7,818 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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.

Credit risk

The City's investment in the Iowa Public Agency Investment Trust is unrated.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 3 NOTES RECEIVABLE

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

Bill Corcoran, due in monthly installments of \$63, beginning May 1, 2009 through April 1, 2014. The note bears no interest and is unsecured.	\$ 2,149
Manchester Area Chamber of Commerce, due in annual installments of \$784, beginning May 1, 2008 through April 1, 2012. The note bears no interest and is unsecured.	784
Fred and Judy Vorwald, due in annual installments of \$2,000, beginning August 1, 2008 through August 1, 2012. The note bears no interest and is unsecured.	4,000
Schau LLC due in monthly installments of \$167, beginning January 1, 2010 through December 1, 2014. The loan bears no interest and is unsecured.	7,000
Matthew Schulte, due in monthly installments of \$167, beginning June 1, 2011 through May 1, 2016. The loan bears no interest and is unsecured.	<u>9,833</u>
Total	<u>\$ 23,766</u>

NOTE 4 BONDS AND NOTES PAYABLE

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

<u>Year ending</u> <u>June 30</u>	<u>General Obligation Bonds</u>		<u>State Revolving Fund</u> <u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2012	\$ 952,000	\$ 210,936	\$ 237,000	\$ 170,400	\$ 1,189,000
2013	968,000	184,253	245,000	163,290	1,213,000	347,543
2014	988,000	155,560	253,000	155,940	1,241,000	311,500
2015	885,000	124,840	261,000	148,350	1,146,000	273,190
2016	621,000	94,573	270,000	140,520	891,000	235,093
2017-2021	1,739,000	195,716	1,484,000	575,910	3,223,000	771,626
2022-2026	237,000	37,347	1,742,000	338,280	1,979,000	375,627
2027-2029	<u>50,000</u>	<u>1,925</u>	<u>1,188,000</u>	<u>72,060</u>	<u>1,238,000</u>	<u>73,985</u>
Total	<u>\$6,440,000</u>	<u>\$1,005,150</u>	<u>\$5,680,000</u>	<u>\$1,764,750</u>	<u>\$12,120,000</u>	<u>\$2,769,900</u>

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

General Obligation Water Improvement Bonds

On November 23, 2010 the City issued \$550,000 of general obligation water improvement bonds with interest rates ranging from 0.85% to 3.15%. These were issued to pay the cost of constructing water system improvements within the City.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 4 BONDS AND NOTES PAYABLE (continued)

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$5,680,000 of the bonds outstanding as of June 30, 2011. Proceeds from the bonds provided 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. 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, 2011 was \$7,444,750. For the current year, principal and interest paid and total customer net receipts were \$401,653 and \$739,628, 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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$127,650, \$116,739 and \$105,121, 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.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 6 COMPENSATED ABSENCES (continued)

The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, Special Revenue Funds, and Enterprise Funds, is as follows:

<u>Type of benefit</u>	<u>Amount</u>
Vacation	\$ 96,650
Sick leave	<u>503,261</u>
Total	<u>\$ 599,911</u>

This liability has been computed based on rates of pay in effect as of June 30, 2011.

NOTE 7 LEASE AGREEMENTS

Lease agreements for the City of Manchester as of June 30, 2011 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 is a party to an operating lease with Mediacom Iowa, LLC, that runs from June 1, 2010 through June 1, 2015. The lease covers storage space in a building and antenna and equipment space on the water tower on Williams Street. The \$375 monthly rent may be increased by the lessor in an amount not to exceed three percent annually.

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 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 four years.

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.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LEASE AGREEMENTS (continued)

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 is 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.

The City of Manchester has entered into a lease agreement commencing March 1, 2011 to lease 4.34 acres of farmland to Elizabeth June Brunswick Todd for \$600 per year. The initial lease term is three years. The lease automatically renews upon expiration on an annual basis unless notice is provided by either party.

NOTE 8 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 465,334
	Franchise fees gas and electric	<u>73,574</u>
		<u>538,908</u>
Debt service fund	Nonmajor governmental funds	457,359
	Sewer fund	<u>1,865</u>
		<u>459,224</u>
Street projects	Nonmajor governmental funds	50,000
	Water fund	40,000
	Local option sales tax	220,000
	Sewer fund	<u>100,000</u>
		<u>410,000</u>
Nonmajor governmental	General fund	20,937
	Local option sales tax	<u>80,000</u>
		<u>100,937</u>
Total		<u>\$1,509,069</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 \$34,677 during the year ended June 30, 2011.

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 10 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, 2011 \$301,492 has been advanced on the loan agreement.

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 11 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 12 DEFICIT BALANCE

The following funds had deficit balances at June 30, 2011:

Water Utility	\$ (101,440)
CDBG Housing	(21,475)
FEMA Property Acquisition	<u>(161,179)</u>
	\$ <u>(284,094)</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, utility receipts or fund transfers.

NOTE 13 CONSTRUCTION IN PROGRESS

The City has entered into various construction contracts totaling approximately \$3,565,129. The unpaid contract balances as of June 30, 2011 totaled approximately \$2,378,141, which will be paid as work on the projects progress.

NOTE 14 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 15 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 payments of \$14,110 under the agreement during the year ended June 30, 2011.

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

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 payments of \$4,093 under the agreement during the year ended June 30, 2011.

The City's obligation under this agreement began on December 1, 2010, continues for ten years and will not exceed \$176,000 in total.

These agreements are not general obligations of the City. However, the amounts payable in succeeding years are subject to the constitutional debt limitation of the City.

NOTE 16 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, 2011 totaled \$16,748. At June 30, 2011 the City had obligations to three employees for the health insurance portion of the early retirement plan with annual expenditures estimated to be \$14,400 per year until the employees become ineligible as described above.

NOTE 17 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, 2011:

Active employees	31
Retired employees	<u>5</u>
Total plan membership	<u>36</u>

City of Manchester
NOTES TO FINANCIAL STATEMENTS

NOTE 18 ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>General</u>	<u>Sports complex</u>	<u>Fire truck reserve</u>	<u>Rescue squad replacement</u>	<u>Holiday decoration replacement</u>	<u>Street equipment reserve</u>
Balances June 30, 2010, as previously reported	\$ 539,280	\$ 4,180	\$ 200,415	\$ 26,534	\$ 985	\$ 50,491
Change in fund type classification per implementation of GASB Statement No. 54	<u>282,605</u>	<u>(4,180)</u>	<u>(200,415)</u>	<u>(26,534)</u>	<u>(985)</u>	<u>(50,491)</u>
Balances July 1, 2010, as restated	<u>\$ 821,885</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

NOTE 19 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The statements which may impact the City are as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, will be effective for the City beginning with its year ending June 30, 2013. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. This Statement also clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*, will be effective for the City beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

The City's management has not yet determined the effect these Statements will have on the City's financial statements.

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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, 2011

	Governmental funds actual	Proprietary funds actual	Total
RECEIPTS			
Property taxes	\$2,362,026	\$ -	\$2,362,026
Tax increment financing collections	343,304	-	343,304
Other city tax	513,902	-	513,902
Licenses and permits	29,424	-	29,424
Use of money and property	46,165	2,352	48,517
Charges for services	483,805	1,777,529	2,261,334
Intergovernmental	1,586,056	513	1,586,569
Special assessments	119,917	2,250	122,167
Miscellaneous	219,790	11,277	231,067
Total receipts	<u>5,704,389</u>	<u>1,793,921</u>	<u>7,498,310</u>
DISBURSEMENTS			
Public safety	1,298,604	-	1,298,604
Public works	1,091,486	-	1,091,486
Culture and recreation	764,461	-	764,461
Community and economic development	269,224	-	269,224
General government	229,292	-	229,292
Debt service	1,108,798	422,306	1,531,104
Capital projects	1,220,334	992,436	2,212,770
Business type activities	-	882,264	882,264
Total disbursements	<u>5,982,199</u>	<u>2,297,006</u>	<u>8,279,205</u>
(Deficiency) of receipts (under) disbursements	<u>(277,810)</u>	<u>(503,085)</u>	<u>(780,895)</u>
OTHER FINANCING SOURCES, net			
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>141,865</u>	<u>844,071</u>	<u>985,936</u>
(135,945)	340,986	205,041	
BALANCES, beginning of year	<u>3,370,651</u>	<u>105,143</u>	<u>3,475,794</u>
BALANCES, end of year	<u>\$3,234,706</u>	<u>\$ 446,129</u>	<u>\$3,680,835</u>

See accompanying independent auditor's report.

<u>Budgeted amounts</u>		<u>Final to total variance</u>
<u>Original</u>	<u>Final</u>	
\$2,276,908	\$2,276,908	\$ 85,118
331,445	331,445	11,859
560,150	560,150	(46,248)
26,230	26,230	3,194
47,040	47,040	1,477
2,281,175	2,281,175	(19,841)
755,692	2,856,676	(1,270,107)
120,000	120,000	2,167
<u>222,700</u>	<u>222,700</u>	<u>8,367</u>
<u>6,621,340</u>	<u>8,722,324</u>	<u>(1,224,014)</u>
1,216,866	1,346,925	48,321
1,006,434	1,117,048	25,562
775,743	782,974	18,513
223,338	313,524	44,300
221,023	242,767	13,475
1,708,999	1,527,291	(3,813)
1,070,000	2,470,585	257,815
<u>3,273,816</u>	<u>1,123,384</u>	<u>241,120</u>
<u>9,496,219</u>	<u>8,924,498</u>	<u>645,293</u>
<u>(2,874,879)</u>	<u>(202,174)</u>	<u>(578,721)</u>
<u>3,655,000</u>	<u>990,055</u>	<u>(4,119)</u>
780,121	787,881	(582,840)
<u>3,475,794</u>	<u>3,475,794</u>	<u>—</u>
<u>\$4,255,915</u>	<u>\$4,263,675</u>	<u>\$ (582,840)</u>

City of Manchester
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2011

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, 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 \$2,100,984 and decreased budgeted disbursements by \$571,721 and decreased other financing sources (uses) of \$2,664,945. The net change was an increase of \$7,760. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

City of Manchester
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
Nonmajor Governmental Funds
As of and for the year ended June 30, 2011

	Special revenue		
	Tax increment financing	Employee benefit fund	Police special uses
RECEIPTS			
Property taxes	\$ -	\$ 365,744	\$ -
Tax increment financing collections	343,304	-	-
Use of money and property	6,302	578	78
Charges for services	-	-	-
Intergovernmental	-	-	1,100
Special assessments	-	-	-
Miscellaneous	-	36,549	1,651
Total receipts	349,606	402,871	2,829
DISBURSEMENTS			
Public safety	-	-	5,485
Public works	-	-	-
Culture and recreation	-	-	-
Community and economic development	24,471	-	-
General government	-	49,649	-
Capital projects	-	-	-
Total disbursements	24,471	49,649	5,485
Excess (deficiency) of receipts over (under) disbursements	325,135	353,222	(2,656)
OTHER FINANCING SOURCES (USES)			
Interfund loans	(9,603)	-	-
Operating transfers in	-	-	-
Operating transfers out	(457,359)	(462,334)	-
Total other financing sources (uses)	(466,962)	(462,334)	-
Net change in cash balances	(141,827)	(109,112)	(2,656)
CASH BALANCES (DEFICIT), beginning of year, as restated	434,702	120,414	8,038
CASH BALANCES (DEFICIT), end of year	\$ 292,875	\$ 11,302	\$ 5,382
CASH BASIS FUND BALANCES (DEFICIT)			
Restricted			
Special revenue fund	\$ 292,875	\$ 11,302	\$ 5,382
Capital projects fund	-	-	-
Unassigned	-	-	-
Total cash basis fund balances (deficit)	\$ 292,875	\$ 11,302	\$ 5,382

Special revenue

<u>Tirrill Trust</u>	<u>COPS program</u>	<u>Police canine program</u>	<u>Park gift & trust</u>	<u>Park improvement</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
93	-	46	225	276
-	-	-	4,835	-
-	-	-	-	-
-	-	-	-	-
<u>1,153</u>	<u>3,000</u>	<u>440</u>	<u>6,845</u>	<u>20</u>
<u>1,246</u>	<u>3,000</u>	<u>486</u>	<u>11,905</u>	<u>296</u>
-	-	1,208	-	-
-	-	-	-	-
5,013	-	-	12,625	15,196
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>5,013</u>	<u>-</u>	<u>1,208</u>	<u>12,625</u>	<u>15,196</u>
<u>(3,767)</u>	<u>3,000</u>	<u>(722)</u>	<u>(720)</u>	<u>(14,900)</u>
-	-	-	-	-
-	-	-	-	20,937
-	(3,000)	-	-	-
<u>-</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>20,937</u>
(3,767)	-	(722)	(720)	6,037
<u>9,991</u>	<u>-</u>	<u>5,978</u>	<u>19,901</u>	<u>42,384</u>
<u>\$ 6,224</u>	<u>\$ -</u>	<u>\$ 5,256</u>	<u>\$ 19,181</u>	<u>\$ 48,421</u>
\$ 6,224	\$ -	\$ 5,256	\$ 19,181	\$ 48,421
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 6,224</u>	<u>\$ -</u>	<u>\$ 5,256</u>	<u>\$ 19,181</u>	<u>\$ 48,421</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, 2011

	Special revenue			
	Housing acquisition/ demolition project	Lorna Stewart trust	Library gift and trust	Economic development revolving fund
RECEIPTS				
Property taxes	\$ -	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-	-
Use of money and property	122	24	693	-
Charges for services	-	-	-	-
Intergovernmental	-	-	5,558	-
Special assessments	-	-	-	-
Miscellaneous	-	-	4,424	11,133
Total receipts	<u>122</u>	<u>24</u>	<u>10,675</u>	<u>11,133</u>
DISBURSEMENTS				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	11,132	-
Community and economic development	-	-	-	-
General government	-	-	-	-
Capital projects	10,270	-	-	-
Total disbursements	<u>10,270</u>	<u>-</u>	<u>11,132</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(10,148)</u>	<u>24</u>	<u>(457)</u>	<u>11,133</u>
OTHER FINANCING SOURCES (USES)				
Interfund loans	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(10,148)	24	(457)	11,133
CASH BALANCES (DEFICIT), beginning of year	<u>35,618</u>	<u>2,938</u>	<u>47,368</u>	<u>659</u>
CASH BALANCES (DEFICIT), end of year	<u>\$ 25,470</u>	<u>\$ 2,962</u>	<u>\$ 46,911</u>	<u>\$ 11,792</u>
CASH BASIS FUND BALANCES (DEFICIT)				
Restricted				
Special revenue fund	\$ 25,470	\$ 2,962	\$ 46,911	\$ 11,792
Capital projects fund	-	-	-	-
Unassigned	-	-	-	-
Total cash basis fund balances (deficit)	<u>\$ 25,470</u>	<u>\$ 2,962</u>	<u>\$ 46,911</u>	<u>\$ 11,792</u>

See accompanying independent auditor's report

Capital projects						
Downtown incentive program	CDBG housing	Bikeway walkway project	Street improvement fund	FEMA property acquisition	Capital projects levied	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 365,744
-	-	-	-	-	-	343,304
263	-	-	474	-	461	9,635
-	-	-	-	-	-	4,835
-	287,314	9,285	-	227,299	-	530,556
-	-	-	97,658	-	-	97,658
6,980	-	-	-	-	-	72,195
<u>7,243</u>	<u>287,314</u>	<u>9,285</u>	<u>98,132</u>	<u>227,299</u>	<u>461</u>	<u>1,423,927</u>
-	-	-	-	-	-	6,693
-	-	-	10,120	-	-	10,120
-	-	-	-	-	-	43,966
-	-	-	-	-	-	24,471
-	-	-	-	-	-	49,649
<u>32,772</u>	<u>139,346</u>	<u>-</u>	<u>27,737</u>	<u>101,064</u>	<u>5,045</u>	<u>316,234</u>
<u>32,772</u>	<u>139,346</u>	<u>-</u>	<u>37,857</u>	<u>101,064</u>	<u>5,045</u>	<u>451,133</u>
<u>(25,529)</u>	<u>147,968</u>	<u>9,285</u>	<u>60,275</u>	<u>126,235</u>	<u>(4,584)</u>	<u>972,794</u>
-	-	-	-	-	-	(9,603)
80,000	-	-	-	-	-	100,937
-	-	-	(50,000)	-	-	(972,693)
<u>80,000</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>(881,359)</u>
54,471	147,968	9,285	10,275	126,235	(4,584)	91,435
<u>29,461</u>	<u>(169,443)</u>	<u>-</u>	<u>25,430</u>	<u>(287,414)</u>	<u>43,022</u>	<u>369,047</u>
<u>\$ 83,932</u>	<u>\$ (21,475)</u>	<u>\$ 9,285</u>	<u>\$ 35,705</u>	<u>\$ (161,179)</u>	<u>\$ 38,438</u>	<u>\$ 460,482</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 475,776
83,932	-	9,285	35,705	-	38,438	167,360
-	(21,475)	-	-	(161,179)	-	(182,654)
<u>\$ 83,932</u>	<u>\$ (21,475)</u>	<u>\$ 9,285</u>	<u>\$ 35,705</u>	<u>\$ (161,179)</u>	<u>\$ 38,438</u>	<u>\$ 460,482</u>

City of Manchester
SCHEDULE OF INDEBTEDNESS
For the year ended June 30, 2011

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest rates</u>	<u>Amount originally issued</u>
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	3.30 to 4.10%	2,645,000
Essential Corporate Purpose and Refunding	May 15, 2010	1.40 to 3.60%	1,865,000
Water Improvement	November 23, 2010	0.85 to 3.15%	<u>550,000</u>
Total			<u>\$ 9,025,000</u>
State Revolving Fund			
Revenue Bonds	July 2, 2008	3.00%	<u>\$ 6,010,000</u>

See accompanying independent auditor's report.

Schedule 2

<u>Balance beginning of year</u>	<u>Issued during year</u>	<u>Redeemed during year</u>	<u>Balance end of year</u>	<u>Interest paid</u>
\$1,445,000	\$ —	\$ 270,000	\$1,175,000	\$ 52,175
595,000	—	65,000	530,000	23,150
731,000	—	36,000	695,000	28,144
2,135,000	—	265,000	1,870,000	78,720
1,865,000	—	245,000	1,620,000	43,809
<u>—</u>	<u>550,000</u>	<u>—</u>	<u>550,000</u>	<u>5,878</u>
<u>\$6,771,000</u>	<u>\$ 550,000</u>	<u>\$ 881,000</u>	<u>\$6,440,000</u>	<u>\$ 231,876</u>
<u>\$5,469,945</u>	<u>\$ 440,055</u>	<u>\$ 230,000</u>	<u>\$5,680,000</u>	<u>\$ 171,653</u>

City of Manchester
BOND AND NOTE MATURITIES
June 30, 2011

Year ending June 30	General Obligation Bonds					
	Essential Corporate Purpose		Essential Corporate Purpose		Fire Station	
	Issued November 1, 2005		Issued October 1, 2007		Issued February 15, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
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%	—
2029		—		—		—
Totals		<u>\$1,175,000</u>		<u>\$ 530,000</u>		<u>\$ 695,000</u>

See accompanying independent auditor's report.

City of Manchester
BOND AND NOTE MATURITIES (continued)
June 30, 2011

Year ending June 30	General Obligation Bonds						Total
	Essential Corporate Purpose		Essential Corporate Purpose and Refunding		Water Improvement		
	Issued July 1, 2008		Issued May 15, 2010		Issued November 23, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	3.30%	\$ 265,000	1.40%	\$ 255,000	0.85%	\$ 50,000	\$ 952,000
2013	3.50%	270,000	1.70%	255,000	1.05%	50,000	968,000
2014	3.70%	260,000	2.00%	265,000	1.30%	50,000	988,000
2015	3.85%	270,000	2.40%	135,000	1.55%	55,000	885,000
2016	3.95%	310,000	2.75%	135,000	1.85%	55,000	621,000
2017	4.00%	245,000	3.00%	135,000	2.10%	55,000	557,000
2018	4.10%	250,000	3.25%	145,000	2.40%	55,000	577,000
2019		—	3.40%	145,000	2.70%	60,000	248,000
2020		—	3.60%	150,000	3.00%	60,000	253,000
2021		—		—	3.15%	60,000	104,000
2022		—		—		—	45,000
2023		—		—		—	47,000
2024		—		—		—	48,000
2025		—		—		—	48,000
2026		—		—		—	49,000
2027		—		—		—	50,000
2028		—		—		—	—
2029		—		—		—	—
Totals		<u>\$1,870,000</u>		<u>\$1,620,000</u>		<u>\$ 550,000</u>	<u>\$6,440,000</u>

Year ending June 30	State Revolving Fund	
	Issued July 2, 2008	
	Interest Rates	Amount
2012	3.00%	\$ 237,000
2013	3.00%	245,000
2014	3.00%	253,000
2015	3.00%	261,000
2016	3.00%	270,000
2017	3.00%	278,000
2018	3.00%	287,000
2019	3.00%	297,000
2020	3.00%	306,000
2021	3.00%	316,000
2022	3.00%	327,000
2023	3.00%	337,000
2024	3.00%	348,000
2025	3.00%	359,000
2026	3.00%	371,000
2027	3.00%	383,000
2028	3.00%	396,000
2029	3.00%	<u>409,000</u>
Totals		<u>\$5,680,000</u>

See accompanying independent auditor's report.

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

	Year ended June 30		
	2011	2010	2009
RECEIPTS			
Property tax	\$2,362,026	\$2,266,457	\$2,141,137
Tax increment financing collections	343,304	329,835	366,070
Other city taxes	513,902	481,171	519,710
Licenses and permits	29,424	26,796	64,698
Use of money and property	46,165	36,098	53,667
Intergovernmental	1,586,056	1,606,068	1,276,460
Charges for services	483,805	449,380	456,697
Special assessments	119,917	97,815	152,715
Miscellaneous	<u>219,790</u>	<u>300,550</u>	<u>309,807</u>
Total receipts	<u>\$5,704,389</u>	<u>\$5,594,170</u>	<u>\$5,340,961</u>
DISBURSEMENTS			
Operating			
Public safety	\$1,298,604	\$1,205,421	\$1,097,889
Public works	1,091,486	1,073,190	1,049,184
Culture and recreation	764,461	731,011	746,814
Community and economic development	269,224	198,688	192,906
General government	229,292	205,237	232,318
Debt service	1,108,798	1,529,018	1,732,730
Capital projects	<u>1,220,334</u>	<u>2,017,135</u>	<u>3,131,933</u>
Total disbursements	<u>\$5,982,199</u>	<u>\$6,959,700</u>	<u>\$8,183,774</u>

See accompanying independent auditor's report.

Year ended June 30			
2008	2007	2006	2005
\$1,898,935	\$1,949,803	\$1,826,532	\$1,747,287
213,627	329,300	339,272	339,328
448,700	637,168	735,313	389,850
65,310	25,191	31,960	54,526
75,557	107,776	55,509	45,182
950,759	791,705	1,488,351	1,349,935
475,543	451,999	436,288	379,864
197,318	242,507	181,212	116,617
<u>673,164</u>	<u>603,488</u>	<u>200,068</u>	<u>492,758</u>
<u>\$4,998,913</u>	<u>\$5,138,937</u>	<u>\$5,294,505</u>	<u>\$4,915,347</u>
\$1,016,739	\$ 946,697	\$ 998,579	\$ 928,904
969,377	854,172	952,270	900,842
637,416	563,005	630,143	551,069
524,084	122,017	738,954	526,735
493,263	228,529	308,085	162,541
954,345	833,731	833,084	1,760,950
<u>2,177,133</u>	<u>1,597,596</u>	<u>2,998,884</u>	<u>2,626,556</u>
<u>\$6,772,357</u>	<u>\$5,145,747</u>	<u>\$7,459,999</u>	<u>\$7,457,597</u>

See accompanying independent auditor's report.

City of Manchester
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

<u>Program</u>	<u>CFDA number</u>	<u>Agency pass-through number</u>	<u>Program expenditures</u>
Direct			
U.S. Department of Homeland Security			
Operations and Safety Program			
Assistance to Fire Fighters Grant Program	97.115	EMW-2008-FO-01529	\$ 807
Assistance to Fire Fighters Grant Program	97.115	EMW-2009-FO-04543	<u>3,129</u>
			<u>3,936</u>
Indirect			
U.S. Department of Housing and Urban Development			
Iowa Department of Economic Development			
State Administered CDBG Cluster			
Community Development Block Grants			
(CDBG) Housing Fund Contract	14.228	07-HSG-084	120,480
(CDBG) Program Contract	14.228	08-WS-041	513
(CDBG) Program Contract	14.228	10-WS-043	580,757
(CDBG) Program Planning Disaster Recovery Fund Contract	14.228	08-DRPG-235	25,375
(CDBG) Hazard Mitigation Grant Program Match for Property Acquisition Contract	14.228	08-DRMH-051	6,494
(CDBG) Hazard Mitigation Grant Program Match for Property Acquisition Contract	14.228	08-DRMH-251	<u>7,625</u>
			741,244
Iowa Finance Authority			
Home Investment Partnership Program			
(HOME) Program Master Contract	14.239	10-HM-117	9,466
Iowa Department of Public Defense			
Iowa Homeland Security and Emergency Management Division			
Hazard Mitigation Grant Program			
Hazard Mitigation Acquisition Project	97.039	HMGP-DR-1763-0164 01	38,126
Hazard Mitigation Acquisition Project	97.039	HMGP-DR-1763=0051 01	32,469
U.S. Department of Transportation			
Iowa Department of Transportation			
ARRA - Highway Planning and Construction Program	20.205	ESL-4682(621)--7S-28	47,699
U.S. Department of Homeland Security			
Iowa Department of Public Defense			
Iowa Homeland Security and Emergency Management Division			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)			
	97.036	FEMA-1877-DRIA	203,202
U.S. Department of Agriculture			
Iowa Department of Natural Resources			
Volunteer Fire Assistance Program	10.664		<u>1,130</u>
			<u>1,073,336</u>
			<u>\$1,077,272</u>

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Manchester and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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 (the City), as of and for the year ended June 30, 2011, 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 November 28, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II-A-11 of the accompanying schedule of findings 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. We consider the deficiency described in Part II-B-11 of the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 28, 2011

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 (the City), 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 each of its major federal programs for the year ended June 30, 2011. 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 each of 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, 2011. 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-A-11 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider a material weakness.

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-11 to be 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
November 28, 2011

City of Manchester
SCHEDULE OF FINDINGS
Year ended June 30, 2011

Part I—Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to major programs.
- (f) The audits disclosed an audit finding that is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - State Administered CDBG Cluster: *Community Development Block Grant*
 - *CFDA Number 14.228 - (CDBG) Housing Fund Contract
 - *CFDA Number 14.228 – (CDBG) Program Contract
 - *CFDA Number 14.228 - (CDBG) Program Planning Disaster Recovery Fund Contract
 - *CFDA Number 14.228 – (CDBG) Hazard Mitigation Grant Program Match for Property Acquisition Contract
- (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, 2011

Part II – Findings Related to Financial Statements

MATERIAL WEAKNESS AND SIGNIFICANT DEFICIENCY

II-A-11 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-11 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, 2011

Part III—Findings Related to Federal Awards

INSTANCE OF NONCOMPLIANCE

CFDA Number 14.228: State Administered CDBG Cluster Community Development Block Grant
Pass-through agency number: 10-WS-043, 08-DRMH-251, 08-DRMH-051, 08-WS-041, 08-DPRG-235, 07-HSG-084
Federal award year: 2010, 2008, 2007
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-11 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 Housing Fund and the FEMA Property Acquisition Fund had deficit balances of \$21,475 and \$161,179 at June 30, 2011, respectively.

Response

The deficits will be eliminated upon receipt of grant money.

SIGNIFICANT DEFICIENCY RISING TO THE LEVEL OF A MATERIAL WEAKNESSES

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through agency number: 10-WS-043
Federal award year: 2010
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 numbers: 08-WS-041, 08-DRMH-251, 08-DRMH-051, 08-DRPG-235
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: 07-HSG-084
Federal award year: 2007
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, 2011

Part III—Findings Related to Federal Awards (continued)

III-B-11 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, 2011

Part IV—Other Findings Related to Statutory Reporting

IV-A-11 CERTIFIED BUDGET

Expenditures during the year ended June 30, 2011 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation. In addition, expenditures in the community and economic development and capital projects functions exceeded amounts budgeted prior to the budget amendment.

Recommendation

The amendment to the budget should have been in an amount adequate so that expenditures do not exceed the budget, and done prior to expenditures exceeding budgeted amounts.

Response

The water fund interest expense was not budgeted under the debt service function when amended in error. We will watch these items more closely in the future.

Conclusion

Response accepted.

IV-B-11 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-11 TRAVEL EXPENSE

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

IV-D-11 BUSINESS TRANSACTIONS

<u>Name, Title, and Business Co</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Struble, Councilman	Flags and Flag Pole	\$ 306
Mark Becker, brother-in-law to Waste Water employee, owner of Becker Electric, LLC	Electrical repairs at Wastewater Plant, Parks and Police Department	10,405
Erica Foley, spouse of Doug Foley, park and recreation director	Recreational program instructor	163
Ray Phillipson, Airport Commissioner: Owner of Phillipson Masonry & Concrete	Concrete work at parks	5,348
Kim Corkery, sister of two employees, dispatch and fire	Baked goods for employee retirement	109
Mark Fink, fireman	Snow removal and grading	4,490
Mike Corkery, fireman, co-owner of NE Iowa Telephone Service	Electronic services and supplies	8,214
Gary Reeder, Planning & Zoning Commission, Owner of Delaware Co. Abstract Co.	Abstract fees	1,264
Sue Broghammer, owner of Sue's Flower & Garden Center, daughter of Tony Broghammer, City Council	Landscaping supplies	2,769
Roger Laker, Board of Adjustment, Owner of Lake Design & Décor	Police restroom remodel and City Hall shades	<u>1,609</u>
		<u>\$ 34,677</u>

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2011

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

IV-D-11 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 were less than \$1,500.

IV-E-11 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-11 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, they did not include a summary of receipts as required by Chapter 372.16(6) of the Code of Iowa.

Recommendation

The City should include summary of receipts in Council Minutes as required.

Response

We will include a summary of receipts in the minutes going forward.

Conclusion

Response accepted.

City of Manchester
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2011

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

IV-G-11 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-11 REVENUE BONDS/NOTES

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

IV-I-11 FINANCIAL CONDITION

The following funds had deficit balances at June 30, 2011:

Water utility	\$ (101,440)
CDBG housing	(21,475)
FEMA property acquisition	<u>(161,179)</u>
	\$ <u>(284,094)</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.

Conclusion

Response accepted.