

CITY OF MANCHESTER
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

Table of Contents

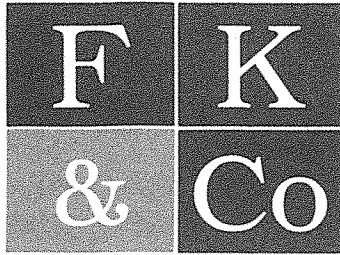
		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	14
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	16
Notes to Financial Statements		17-28
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		30
Notes to Other Information - Budgetary Reporting		31
Schedule of the City's Proportionate Share of the Net Pension Liability		32
Schedule of City Contributions		33
Notes to Other Information – Pension Liability		34
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	36
Schedule of Indebtedness	2	37
Bond and Note Maturities	3	38
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	39
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		40-41
Schedule of Findings		42-48

City of Manchester

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Milt Kramer	Mayor	Jan 2018
Mary Ann Poyner	Council Member	Jan 2018
Ron Struble	Council Member	Jan 2018
Connie Behnken	Council Member	Jan 2020
Dean Sherman	Council Member	Jan 2020
Dan Stelken	Council Member	Jan 2020
Timothy Vick	City Administrator	Indefinite
Erin Learn	City Clerk/Treasurer	Indefinite
James Peters	City Attorney	Indefinite

City of Manchester



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

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, (City) as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 as of June 30, 2017, 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.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 12 and 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
November 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Manchester (City) 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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 22.9%, or approximately \$1,530,000 from fiscal year 2016 to fiscal year 2017. Bond proceeds increased by \$1,940,000 due to the issuance of new debt.
- Disbursements of the City's governmental activities increased by 2.3%, or approximately \$172,000 in fiscal year 2017 from fiscal year 2016. Public safety and public works disbursements increased approximately \$605,000 and \$297,000, respectively. In addition, capital projects disbursements decreased approximately \$1,028,000.
- The City's total cash basis net position increased 26.1%, or approximately \$909,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$918,000 and the cash basis net position of the business type activities decreased approximately \$10,000.

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 Cash Basis Statement of Activities and Net Position. 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 financial 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

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 operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Cash Basis Statement of Activities and Net Position 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 system, the sewer system and the meter deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water Fund and the Sewer Fund, considered to be major funds of the City and the Meter Deposit Fund, considered to be a nonmajor fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$2.874 million to approximately \$3.792 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 631	986
Operating grants, contributions and restricted interest	1,444	804
Capital grants, contributions and restricted interest	25	765
General receipts:		
Property tax	2,438	2,791
Tax increment financing	425	463
Other city tax	385	-
Local option sales tax	513	479
Hotel/Motel tax	47	-
Commercial/industrial tax replacement	291	265
Unrestricted interest on investments	18	16
Proceeds of general obligation bonds	1,940	-
Sale of capital assets	51	6
Miscellaneous	-	103
Total receipts	<u>8,208</u>	<u>6,678</u>
Disbursements:		
Public safety	1,939	1,334
Public works	1,324	1,027
Culture and recreation	974	1,034
Community and economic development	512	257
General government	349	311
Debt service	1,298	1,233
Capital projects	1,115	2,143
Total disbursements	<u>7,511</u>	<u>7,339</u>
Change in cash basis net position before transfers	697	(661)
Transfers, net	<u>221</u>	<u>218</u>
Change in cash basis net position	918	(443)
Cash basis net position beginning of year	<u>2,874</u>	<u>3,317</u>
Cash basis net position end of year	<u>\$ 3,792</u>	<u>2,874</u>

The City's total receipts for governmental activities increased 22.9%, or approximately \$1,530,000 from the prior year. The total cost of all programs and services increased approximately \$172,000, or 2.3%, with no new programs added this year. The increase in receipts was the result of bond proceeds received in fiscal year 2017. The increase in program costs was the result of an increase in public safety and public works disbursements.

The City maintained a slight increase in the property tax dollar request for fiscal year 2017. Property tax receipts increased by approximately \$32,000 in fiscal year 2017. Property tax receipts are budgeted to remain relatively constant next year.

The cost of all governmental activities this year was approximately \$7.511 million compared to approximately \$7.339 million last year. However, as shown on the Statement of Activities and Net Position on page 14, the amount taxpayers ultimately financed for these activities was \$5.41 million because some of the cost was paid by those directly benefited from the programs (approximately \$631,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$1,469,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2017 from approximately \$2,554,000 to approximately \$2,100,000, principally due to decreased capital grants, contributions and restricted interest in fiscal year 2017 compared to fiscal year 2016.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 784	714
Sewer	1,082	1,065
Meter deposits	10	10
General receipts:		
Unrestricted interest on investments	3	3
Miscellaneous	-	22
Total receipts	<u>1,879</u>	<u>1,814</u>
Disbursements:		
Water	717	674
Sewer	941	910
Meter deposits	10	7
Total disbursements	<u>1,668</u>	<u>1,591</u>
Change in cash basis net position before transfers	211	223
Transfers, net	<u>(221)</u>	<u>(218)</u>
Change in cash basis net position	(10)	5
Cash basis net position beginning of year	<u>602</u>	<u>597</u>
Cash basis net position end of year	<u>\$ 592</u>	<u>602</u>

Total business type activities receipts for the fiscal year were approximately \$1.879 million compared to approximately \$1.814 million last year. The increase was primarily due to an increase in charges for service receipts. The cash balance decreased approximately \$10,000 from the prior year due to an increase in costs. Total disbursements for the fiscal year increased 4.8% to approximately \$1,668,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$3,791,670 an increase of more than \$918,000 above last year's total of \$2,873,449. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$92,507 from the prior year to \$826,292. The City is attempting to maintain the General Fund on a status quo basis from year to year.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$49,305 from the prior year to \$359,990. The monies in this fund can only be used on street related costs. The City intends to use this money for future street improvement projects.
- The Special Revenue, Employee Benefits Fund cash balance decreased by \$8,846 from the prior year to \$112,198. Due to the uncertainty in health care insurance premium costs, the City has built up a reserve in this fund should health care insurance premium costs significantly increase in the future.
- The Debt Service Fund cash balance increased by \$41,815 from the prior year to \$126,599. Bond principal and interest payments increased by \$64,250 in fiscal year 2017.
- The Capital Projects Fund cash balance increased by \$1,227,118 to \$1,818,589. The City is in the process of starting some major capital improvement projects, which should significantly reduce the cash balance in this fund in the future.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased by \$4,272 to \$210,670. The City is attempting to keep the balance in this fund relatively steady from year to year.
- The Enterprise, Sewer Fund cash balance decreased by \$14,538 to \$332,064. The City is attempting to keep the balance in this fund relatively steady from year to year.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time.

The City's receipts were \$66,203 more than the amended budgeted. This was primarily due to the City receiving more miscellaneous receipts than anticipated.

The City's disbursements were \$595,811 less than budgeted. Disbursements in the capital projects and general government functions were \$313,466 and \$71,287 less than the amended budget amounts.

The original budget for fiscal year 2017 was approved by the City Council on March 14, 2016, and later amended on May 22, 2017. The budget amendment was primarily necessitated because of capital improvement projects.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$11,317,000 in bonds and other long-term debt outstanding, compared to approximately \$10,909,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2017	2016
General obligation bonds	\$ 6,690	5,915
Revenue bonds	4,627	4,994
Total	\$ 11,317	10,909

Debt increased due to the addition of new debt in fiscal year 2017.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,690,000 is significantly below its constitutional debt limit of \$14,358,497. Additional information about the City's long-term debt is presented in Note 3 to the financial statements

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Manchester's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017-18 budget.

These indicators were taken into account when adopting the budget for fiscal year 2017. Based on the tax rate of \$15.59548 per \$1,000 of taxable valuation, the City expects to generate \$2,577,804 in property tax receipts for fiscal year 2018. Receipts from all funds, including Enterprise Funds, are anticipated to be \$10,374,506.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, 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 Vick, City Manager, 208 East Main Street, Manchester, IA 52057.

Basic Financial Statements

City of Manchester

Exhibit A

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 1,938,818	229,761	212,559	-	(1,496,498)	-	(1,496,498)
Public works	1,323,550	5,579	955,397	-	(362,574)	-	(362,574)
Culture and recreation	974,281	147,047	213,441	-	(613,793)	-	(613,793)
Community and economic development	512,343	84,962	8,698	-	(418,683)	-	(418,683)
General government	348,554	75,787	-	-	(272,767)	-	(272,767)
Debt service	1,297,663	-	1,168	-	(1,296,495)	-	(1,296,495)
Capital projects	1,114,987	87,887	52,313	25,175	(949,612)	-	(949,612)
Total governmental activities	7,510,196	631,023	1,443,576	25,175	(5,410,422)	-	(5,410,422)
Business type activities:							
Water	716,891	784,443	-	-	-	67,552	67,552
Sewer	941,427	1,081,745	-	-	-	140,318	140,318
Meter deposits	9,538	9,900	-	-	-	362	362
Total business type activities	1,667,856	1,876,088	-	-	-	208,232	208,232
Total	\$ 9,178,052	2,507,111	1,443,576	25,175	(5,410,422)	208,232	(5,202,190)
General Receipts and Transfers:							
Property tax and other city tax levied for:							
General purposes					1,899,629	-	1,899,629
Debt service					538,090	-	538,090
Tax increment financing					425,009	-	425,009
Other city tax					385,489	-	385,489
Local option sales tax					512,946	-	512,946
Hotel/Motel tax					46,767	-	46,767
Commercial/industrial tax replacement					291,136	-	291,136
Unrestricted interest on investments					17,734	2,696	20,430
Proceeds of general obligation bonds, net of \$9,750 discount					1,940,250	-	1,940,250
Sale of capital assets					51,048	-	51,048
Transfers					220,545	(220,545)	-
Total general receipts and transfers					6,328,643	(217,849)	6,110,794
Change in cash basis net position					918,221	(9,617)	908,604
Cash basis net position beginning of year					2,873,449	601,550	3,474,999
Cash basis net position end of year					\$ 3,791,670	591,933	4,383,603
Cash Basis Net Position							
Restricted:							
Expendable:							
Streets					\$ 359,990	-	359,990
Urban renewal purposes					99,015	-	99,015
Debt service					126,599	219,906	346,505
Capital projects					1,497,263	-	1,497,263
Hotel/Motel					4,418	-	4,418
Franchise fees					114,489	-	114,489
Other purposes					561,185	49,199	610,384
Unrestricted					1,028,711	322,828	1,351,539
Total cash basis net position					\$ 3,791,670	591,933	4,383,603

See notes to financial statements.

City of Manchester

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2017

	Special Revenue						Total
	General	Road Use Tax	Employee Benefit	Debt Service	Capital Projects	Nonmajor	
Receipts:							
Property tax	\$ 1,372,236	-	527,393	538,090	-	-	2,437,719
Tax increment financing	-	-	-	-	-	425,009	425,009
Other city tax	432,255	-	-	-	-	512,946	945,201
Licenses and permits	29,559	-	-	-	-	-	29,559
Use of money and property	33,271	-	-	1,168	1,294	3,680	39,413
Intergovernmental	446,763	642,940	53,249	54,677	27,500	54,384	1,279,513
Charges for service	448,287	-	-	-	-	595	448,882
Special assessments	-	-	-	-	87,888	-	87,888
Miscellaneous	276,244	-	44,995	-	49,988	151,681	522,908
Total receipts	<u>3,038,615</u>	<u>642,940</u>	<u>625,637</u>	<u>593,935</u>	<u>166,670</u>	<u>1,148,295</u>	<u>6,216,092</u>
Disbursements:							
Operating:							
Public safety	1,636,562	-	291,781	-	-	10,475	1,938,818
Public works	742,545	503,635	77,370	-	-	-	1,323,550
Culture and recreation	754,775	-	118,654	-	-	100,852	974,281
Community and economic development	474,059	-	22,790	-	-	15,494	512,343
General government	224,666	-	123,888	-	-	-	348,554
Debt service	-	-	-	1,297,663	-	-	1,297,663
Capital projects	-	-	-	-	1,114,987	-	1,114,987
Total disbursements	<u>3,832,607</u>	<u>503,635</u>	<u>634,483</u>	<u>1,297,663</u>	<u>1,114,987</u>	<u>126,821</u>	<u>7,510,196</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(793,992)</u>	<u>139,305</u>	<u>(8,846)</u>	<u>(703,728)</u>	<u>(948,317)</u>	<u>1,021,474</u>	<u>(1,294,104)</u>
Other financing sources (uses):							
Proceeds of general obligation bonds, net of \$9,750 discount	-	-	-	1,940,250	-	-	1,940,250
Sale of capital assets	51,530	-	-	-	-	-	51,530
Transfers in	680,000	-	-	715,728	2,175,435	30,045	3,601,208
Transfers out	(30,045)	(90,000)	-	(1,910,435)	-	(1,350,183)	(3,380,663)
Total other financing sources (uses)	<u>701,485</u>	<u>(90,000)</u>	<u>-</u>	<u>745,543</u>	<u>2,175,435</u>	<u>(1,320,138)</u>	<u>2,212,325</u>
Change in cash balances	(92,507)	49,305	(8,846)	41,815	1,227,118	(298,664)	918,221
Cash balances beginning of year, as restated	918,799	310,685	121,044	84,784	591,471	846,666	2,873,449
Cash balances end of year	<u>\$ 826,292</u>	<u>359,990</u>	<u>112,198</u>	<u>126,599</u>	<u>1,818,589</u>	<u>548,002</u>	<u>3,791,670</u>
Cash Basis Fund Balances							
Restricted for:							
Streets	\$ -	359,990	-	-	-	-	359,990
Urban renewal purposes	-	-	-	-	-	99,015	99,015
Debt service	-	-	-	126,599	-	-	126,599
Capital projects	-	-	-	-	1,497,263	-	1,497,263
Hotel/Motel	4,418	-	-	-	-	-	4,418
Franchise fees	114,489	-	-	-	-	-	114,489
Other purposes	-	-	112,198	-	-	448,987	561,185
Assigned	349,421	-	-	-	321,326	-	670,747
Unassigned	357,964	-	-	-	-	-	357,964
Total cash basis fund balances	<u>\$ 826,292</u>	<u>359,990</u>	<u>112,198</u>	<u>126,599</u>	<u>1,818,589</u>	<u>548,002</u>	<u>3,791,670</u>

See notes to financial statements.

City of Manchester

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2017

	Enterprise			Total
	Water	Sewer	Nonmajor - Meter Deposits	
Operating receipts:				
Rental income	\$ 25,179	-	-	25,179
Charges for service	759,264	1,081,745	-	1,841,009
Miscellaneous	-	-	9,900	9,900
Total operating receipts	<u>784,443</u>	<u>1,081,745</u>	<u>9,900</u>	<u>1,876,088</u>
Operating disbursements:				
Business type activities	451,884	484,873	9,538	946,295
Total operating disbursements	<u>451,884</u>	<u>484,873</u>	<u>9,538</u>	<u>946,295</u>
Excess of operating receipts over operating disbursements	<u>332,559</u>	<u>596,872</u>	<u>362</u>	<u>929,793</u>
Non-operating receipts (disbursements):				
Interest on investments	5	2,404	287	2,696
Debt service	(107,850)	(421,455)	-	(529,305)
Capital projects	(157,157)	(35,099)	-	(192,256)
Net non-operating receipts (disbursements)	<u>(265,002)</u>	<u>(454,150)</u>	<u>287</u>	<u>(718,865)</u>
Excess of receipts over disbursements	<u>67,557</u>	<u>142,722</u>	<u>649</u>	<u>210,928</u>
Other financing sources (uses):				
Transfers out	(63,285)	(157,260)	-	(220,545)
Total other financing sources (uses)	<u>(63,285)</u>	<u>(157,260)</u>	<u>-</u>	<u>(220,545)</u>
Change in cash balances	4,272	(14,538)	649	(9,617)
Cash balances beginning of year, as restated	<u>206,398</u>	<u>346,602</u>	<u>48,550</u>	<u>601,550</u>
Cash balances end of year	<u>\$ 210,670</u>	<u>332,064</u>	<u>49,199</u>	<u>591,933</u>
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 24,505	195,401	-	219,906
Meter deposits	-	-	49,199	49,199
Unrestricted	<u>186,165</u>	<u>136,663</u>	<u>-</u>	<u>322,828</u>
Total cash basis fund balances	<u>\$ 210,670</u>	<u>332,064</u>	<u>49,199</u>	<u>591,933</u>

See notes to financial statements.

City of Manchester

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Manchester (City) is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1866 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 governmental services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Manchester has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also 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, East Central Intergovernmental Association, Foundation for the Future of Delaware County, Northeastern Iowa Regional League, Eastern Iowa Regional Housing Authority, Delaware County Communications Center, Buchanan County Joint E911 Service Board, Community Childcare of Manchester, Greater Delaware County Community Foundation and Good to Great.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general levies 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.

The Employee Benefits Fund is used to account for the tax levy to support City employee benefits.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position 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 non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

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

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 City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 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 ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the 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.

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) to 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Bonds Payable

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

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2018	\$1,120,000	126,295	379,000	138,810	1,499,000	265,105	1,764,105
2019	950,000	108,789	392,000	127,440	1,342,000	236,229	1,578,229
2020	885,000	92,439	404,000	115,680	1,289,000	208,119	1,497,119
2021	715,000	75,399	417,000	103,560	1,132,000	178,959	1,310,959
2022	680,000	63,181	432,000	91,050	1,112,000	154,231	1,266,231
2023-2027	2,340,000	136,259	1,798,000	286,020	4,138,000	422,279	4,560,279
2028-2029	-	-	805,000	36,420	805,000	36,420	841,420
	<u>\$6,690,000</u>	<u>602,362</u>	<u>4,627,000</u>	<u>898,980</u>	<u>11,317,000</u>	<u>1,501,342</u>	<u>12,818,342</u>

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$6,010,000 in sewer revenue bonds issued in July 2008. Proceeds for the bonds were used to provide financing for the construction of improvements to the sewer treatment plant and collection system. The bonds are payable solely from sewer customer net receipts and are payable through 2029. Annual principal and interest payment on the bonds are expected to require less than 69% of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,989,830. For the current year, principal and interest paid and total customer net receipts were \$410,420 and \$596,872, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$909,000 in water revenue bonds issued in December 2011. Proceeds from the bonds provided financing for the construction of water main extensions and improvements. The bonds are payable solely from water customer net receipts and are payable through 2022. Annual principal and interest payment on the bonds are expected to require less than 32% of net receipts. The total principal and interest remaining to be paid on the bonds is \$536,150. For the current year, principal and interest paid and total customer net receipts were \$106,400 and \$332,559, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the Utility and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

(4) Operating Leases

The City has entered into various leases to lease building facilities and electronic equipment. All of these leases are considered operating leases and expire at various dates through the fiscal year 2020. Since these leases are all considered operating leases, all lease charges are charged to expense as incurred.

The following is a schedule of future payments required under these operating leases which have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2017:

Year Ended June 30,	Amount
2018	\$ 28,420
2019	26,887
2020	4,624
	\$ 59,931

During the fiscal year, total expenditures incurred in relation to these lease agreements were \$28,943.

(5) **Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 were \$177,858.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$1,103,436 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.0175335%, which was an increase of 0.001669% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$172,541, \$449,479 and \$218,040, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	1.90 %
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,053,196	1,103,436	302,172

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) Lease Income

The City is leasing antenna space on the water tower and City buildings to communication providers. The length of the lease terms range from five years with options to extend for additional years at the option of the tenants. The lease terms contain provisions of monthly rent amounts and increases in rents. The City received \$25,179 from tenants in fiscal year 2017 from these leases.

(7) Notes Receivable

The City has loaned money to area businesses as part of its Downtown Incentive Program. The program provides no interest loans to downtown businesses for second story improvements. The following loans were outstanding at June 30, 2017 in relation to the City's Downtown Incentive Program.

- A \$10,000 loan was made to Wes Schulte in 2014, due in monthly installments of \$167, beginning February 1, 2015 through November 1, 2018. The loan bears no interest and is unsecured. The balance owed on this loan at June 30, 2017 is \$5,000.

- A \$10,000 loan was made to Wes Schulte in 2016, due in monthly installments of \$167, beginning January 1, 2017 through December 31, 2021. The loan bears no interest and is unsecured. The balance owed on this loan at June 30, 2017 is \$10,000. This loan is currently delinquent.

In addition, the City made a \$50,000 loan to R. C. Properties V, LLC (Lextron Animal Health) to make construction improvements to its facilities. Principal and interest payments are due in annual installments and began in December, 2009 and are scheduled to continue through December, 2018. The annual interest rate is 2% and the City is provided a security interest via a real estate mortgage on the land, building and fixtures of the property. The principal balance owed on this loan at June 30, 2017 is \$10,698.

The management of the City believes all of the above loans are collectible.

(8) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 29 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$421.53/\$467.39 for single coverage, \$863.29/\$957.23 for employee/spouse coverage, \$797.96/\$884.79 for employee/dependent coverage, and \$1,293.86 for family coverage. The difference in the premiums for the same group represents differences in the types of coverage provided. For the year ended June 30, 2017, the City contributed \$248,851 and plan members eligible for benefits contributed \$49,417 to the plan.

In addition, for employees who meet certain requirements who terminate employment with the City, employees will be entitled to 25% of the employee's accumulated sick leave dollar equivalent at the employee's current rate of compensation. This compensation can be paid in cash or as a credit toward the cost of maintaining health insurance under the City's medical insurance program.

(9) Termination Benefits

During the fiscal year, the City had three early retirement plans in effect. A discussion of these three different plans are as follows:

- In 2007, the City approved a voluntary early retirement plan for employees. The plan was only offered to employees for one year. Eligible employees must have 1) completed at least ten years of full-time service to the City, 2) have reached the age of 55 by December 31, 2007, and 3) have resigned by December 31, 2007. The application for early retirement was subject to approval by the City Council.

Early retirement benefits equal 25% of each day of earned, unused sick leave days, calculated as of the last day of employment prior to retirement. If the employee wanted to continue participation in the City's health insurance plan, the payment the City would contribute towards the monthly premium would not exceed \$400 per month. The City will cease coverage of the retiree upon the earliest of the following: 1) the employee fails to pay any premium balance, 2) the employee becomes deceased, or 3) the employee becomes eligible for Medicare.

At June 30, 2017, the City had obligations to no participants with a total liability of \$0. Actual early retirement expenditures for the year ended June 30, 2017 totaled \$4,000.

- In 2014, the City approved a voluntary early retirement plan for employees. The plan was offered from January 3, 2014 through February 3, 2014 and required any applying employees to set a retirement date before July 31, 2014.

Early retirement benefits include a \$500 monthly contribution to the employees' health reimbursement account and 25%, 30% or 35% of accumulated sick pay based on years' service (20, 25 or 30 years, respectively). Monthly payments cease upon the earliest of the following: 1) the employee fails to pay any premium balance, 2) the employee becomes deceased, or 3) the employee becomes eligible for Medicare.

At June 30, 2017, the City has obligations to three participants with a total liability of \$51,000. Actual early retirement expenditures for the year ended June 30, 2017 totaled \$18,000.

- In 2016, the City approved a voluntary early retirement plan for employees. The plan was only offered to employees from July 18, 2016 to August 12, 2016 and required any applying employees to set a retirement date before March 31, 2017. Eligible employees must have 1) completed at least ten consecutive years of full-time service to the City prior to March 31, 2017, 2) have reached the age of 55 at retirement, and 3) have resigned prior to March 31, 2017. The application for early retirement was subject to approval by the City Council

Early retirement benefits include a \$500 monthly contribution to the employees' health reimbursement account and 25%, 30% or 35% of accumulated sick pay based on years' service (20, 25 or 30 years, respectively). Monthly payments cease upon the earliest of the following: 1) the employee fails to pay any premium balance, 2) the employee becomes deceased, or 3) the employee becomes eligible for Medicare.

At June 30, 2017, the City has obligations to three participants with a total liability of \$69,000. Actual early retirement expenditures for the year ended June 30, 2017 totaled \$33,438.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Road Use Tax	\$ 90,000
	Urban Renewal Tax Increment	30,000
	Debt Service	560,000
		<u>680,000</u>
Special Revenue:		
Park Improvement	General	<u>21,045</u>
Special Revenue:		
Tirrill Trust	General	<u>9,000</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	495,183
	Enterprise:	
	Water	63,285
	Sewer	157,260
		<u>715,728</u>
Capital Projects	Debt Service	1,350,435
	Special Revenue:	
	Local Option Sales Tax	825,000
		<u>2,175,435</u>
	Total	<u>\$ 3,601,208</u>

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

(11) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2017, was \$151,448. The liability has been computed based on rates of pay in effect at June 30, 2017.

(12) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings. Certain agreements also require the developer to certify specific employment requirements are met. The remaining total to be paid by the City under the agreements is not to exceed \$1,068,995.

The City rebated \$30,000 during fiscal year 2017. The outstanding balance of the agreements at June 30, 2016 subject to annual appropriation was \$1,068,995.

The agreements are not a general obligation of the City. In addition, the agreements are not subject to the constitutional debt limitation of the City because these agreements are subject to annual appropriation by the City Council.

(13) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$17,556 during the year ended June 30, 2017.

(14) 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.

(15) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$30,000 of property tax under the urban renewal and economic development projects.

(16) Commitments

The City has entered into various agreements for street reconstruction. As of June 30, 2017, approximately \$722,000 remains to be paid on these projects. These costs will be paid for as work progresses. It is anticipated that these projects will be completed in fiscal year 2018. The City intends to pay for these costs from existing cash reserves.

(17) Contingency

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(18) Fund Balance

The City's assigned fund balance in the General Fund as of June 30, 2017 consists of the following:

Purpose	Amount
Fire department	\$ 55,472
Animal control	346
Street reserve	293,458
Airport	<u>145</u>
Total	<u><u>\$ 349,421</u></u>

(19) Subsequent Events

The City has evaluated all subsequent events through November 28, 2017, the date the financial statements were available to be issued.

The City has entered into various agreements for a utility improvement project and a riverbank restoration project in fiscal year 2018. These contracts totaled approximately \$266,000. These costs will be paid for as work progresses. It is anticipated that these projects will be completed in fiscal year 2018. The City intends to pay for these costs from existing cash reserves.

(20) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about tax abatements of other entities which impact the City.

(21) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

(22) Accounting Restatement

The beginning cash balances were restated to reflect the proper balances and the proper classification between accounts and funds. The restatements are as follows:

	Balances at June 30, 2016, as previously reported	Restatements	Balances at July 1, 2016, as restated
General Fund	905,586	13,213	918,799
Special Revenue Funds:			
Emergency Fund	462	(462)	-
Housing Acquisition and Demolition	12,751	(12,751)	-
Capital Projects Fund	-	591,471	591,471
Capital Projects Fund:			
Street Project	368,074	(368,074)	-
Capital Projects Levied	5,801	(5,801)	-
Downtown Incentive	90,039	(90,039)	-
Whitewater Park Project	34,000	(34,000)	-
Bikeway Walkway Project	39,176	(39,176)	-
Street Improvement	39,562	(39,562)	-
CDBG Housing Grants	1,954	(1,954)	-
FEMA Projects	12,865	(12,865)	-
Enterprise:			
Water	188,262	18,136	206,398
Water Debt Service	12,355	(12,355)	-
Water Capital Improvement	5,781	(5,781)	-
Enterprise:			
Sewer	117,424	229,178	346,602
Sewer Debt Service	212,338	(212,338)	-
Sewer Capital Improvement	452	(452)	-
Sewer Replacement	16,388	(16,388)	-

Other 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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 2,437,719	-	2,437,719	2,500,141	2,500,141	(62,422)
Tax increment financing	425,009	-	425,009	495,183	495,183	(70,174)
Other city tax	945,201	-	945,201	1,014,854	1,014,854	(69,653)
Licenses and permits	29,559	-	29,559	37,380	37,380	(7,821)
Use of money and property	39,413	27,875	67,288	31,776	31,776	35,512
Intergovernmental	1,279,513	-	1,279,513	1,171,043	1,171,043	108,470
Charges for service	448,882	1,841,009	2,289,891	2,448,150	2,448,150	(158,259)
Special assessments	87,888	-	87,888	122,000	122,000	(34,112)
Miscellaneous	522,908	9,900	532,808	208,146	208,146	324,662
Total receipts	6,216,092	1,878,784	8,094,876	8,028,673	8,028,673	66,203
Disbursements:						
Public safety	1,938,818	-	1,938,818	1,440,387	1,953,327	14,509
Public works	1,323,550	-	1,323,550	1,309,286	1,352,464	28,914
Culture and recreation	974,281	-	974,281	881,241	980,501	6,220
Community and economic development	512,343	-	512,343	334,127	559,788	47,445
General government	348,554	-	348,554	294,843	419,841	71,287
Debt service	1,297,663	-	1,297,663	1,286,911	1,337,721	40,058
Capital projects	1,114,987	-	1,114,987	1,225,000	1,428,433	313,446
Business type activities	-	1,667,856	1,667,856	1,812,053	1,741,788	73,932
Total disbursements	7,510,196	1,667,856	9,178,052	8,583,848	9,773,863	595,811
Excess (deficiency) of receipts over (under) disbursements	(1,294,104)	210,928	(1,083,176)	(555,175)	(1,745,190)	662,014
Other financing sources, net	2,212,325	(220,545)	1,991,780	-	2,310,000	(318,220)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	918,221	(9,617)	908,604	(555,175)	564,810	343,794
Balances beginning of year	2,873,449	601,550	3,474,999	3,164,476	3,164,476	310,523
Balances end of year	\$ 3,791,670	591,933	4,383,603	2,609,301	3,729,286	654,317

See accompanying independent auditor's report.

City of Manchester

Notes to Other Information - Budgetary Reporting

June 30, 2017

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. 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 Fund, the Permanent Fund and the Enterprise 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 disbursements by \$1,190,015. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.

City of Manchester

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.017534%	0.015865%	0.015066%
City's proportionate share of the net pension liability	\$ 1,103	784	598
City's covered-employee payroll	\$ 1,759	1,759	1,706
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	62.70%	44.56%	35.03%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding fiscal year.

See accompanying independent auditor's report.

City of Manchester

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution	\$ 178	162	159	159	147	135	123	56	105	95
Contributions in relation to the statutorily required contribution	(178)	(162)	(159)	(159)	(147)	(135)	(123)	(56)	(105)	(95)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,932	1,759	1,706	1,708	1,604	1,561	1,563	756	1,432	1,377
Contributions as a percentage of covered-employee payroll	9.21%	9.21%	9.30%	9.29%	9.14%	8.64%	7.85%	7.42%	7.34%	6.91%

See accompanying independent auditor's report.

City of Manchester

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

City of Manchester

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2017

	Special Revenue											Total
	Urban Renewal Tax Increment	Police Special Use	Local Option Sales Tax	Park Improvement	Economic Development	Tirrill Trust	Park Gift & Trust	Lora Stewart Trust	Library Gift & Trust	Police Canine		
Receipts:												
Tax increment financing	\$ 425,009	-	-	-	-	-	-	-	-	-	-	425,009
Other city tax	-	-	512,946	-	-	-	-	-	-	-	-	512,946
Use of money and property	744	10	1,552	983	-	-	63	1	314	13	-	3,680
Intergovernmental	44,802	825	-	-	-	-	3,000	-	5,757	-	-	54,384
Charges for service	-	-	-	-	-	-	595	-	-	-	-	595
Miscellaneous	-	6,318	-	676	5,566	19	15,289	-	123,390	423	-	151,681
Total receipts	470,555	7,153	514,498	1,659	5,566	19	18,947	1	129,461	436	-	1,148,295
Disbursements:												
Operating:												
Public safety	-	9,783	-	-	-	-	-	-	-	692	-	10,475
Culture and recreation	-	-	-	21,203	-	9,252	20,693	-	49,704	-	-	100,852
Community and economic development	15,494	-	-	-	-	-	-	-	-	-	-	15,494
Total disbursements	15,494	9,783	-	21,203	-	9,252	20,693	-	49,704	692	-	126,821
Excess (deficiency) of receipts over (under) disbursements	455,061	(2,630)	514,498	(19,544)	5,566	(9,233)	(1,746)	1	79,757	(256)	-	1,021,474
Other financing sources (uses):												
Transfers in	-	-	-	21,045	-	9,000	-	-	-	-	-	30,045
Transfers out	(525,183)	-	(825,000)	-	-	-	-	-	-	-	-	(1,350,183)
Total other financing sources (uses)	(525,183)	-	(825,000)	21,045	-	9,000	-	-	-	-	-	(1,320,138)
Change in cash balances	(70,122)	(2,630)	(310,502)	1,501	5,566	(233)	(1,746)	1	79,757	(256)	-	(298,664)
Cash balances beginning of year	169,137	14,496	461,774	45,828	39,623	1,999	30,079	3,008	73,505	7,217	-	846,666
Cash balances end of year	\$ 99,015	11,866	151,272	47,329	45,189	1,766	28,333	3,009	153,262	6,961	-	548,002
Cash Basis Fund Balances												
Restricted for:												
Urban renewal purposes	\$ 99,015	-	-	-	-	-	-	-	-	-	-	99,015
Other purposes	-	11,866	151,272	47,329	45,189	1,766	28,333	3,009	153,262	6,961	-	448,987
Total cash basis fund balances	\$ 99,015	11,866	151,272	47,329	45,189	1,766	28,333	3,009	153,262	6,961	-	548,002

See accompanying independent auditor's report.

City of Manchester

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds:									
Corporate purpose and refunding, Series 2010	May 15, 2010	1.40-3.60%	\$ 1,865,000	575,000	-	135,000	440,000	19,093	-
Water improvement, Series 2010B	November 23, 2010	0.85-3.15%	550,000	290,000	-	55,000	235,000	7,785	-
Corporate purpose, Series 2012	May 3, 2012	0.60-1.60%	1,000,000	410,000	-	225,000	185,000	5,660	-
Corporate purpose and refunding, Series 2013	April 23, 2013	0.35-1.90%	1,795,000	755,000	-	115,000	640,000	9,755	-
Corporate purpose and refunding, Series 2014A	May 27, 2014	0.50-2.45%	1,130,000	890,000	-	155,000	735,000	14,625	-
Refunding, Series 2015A	April 28, 2015	1.50-2.40%	1,375,000	995,000	-	305,000	690,000	16,895	-
Corporate purpose, Series 2015B	June 23, 2015	0.75-2.45%	2,000,000	2,000,000	-	185,000	1,815,000	34,598	-
Corporate purpose, Series 2017	June 27, 2017	1.20-2.40%	1,950,000	-	1,950,000	-	1,950,000	-	-
Total			\$ 5,915,000	1,950,000	1,950,000	1,175,000	6,690,000	108,411	-
Revenue Bonds:									
Sewer revenue	July 2, 2008	3.00%	\$ 6,010,000	4,414,000	-	278,000	4,136,000	132,420	-
Water revenue	December 20, 2011	3.00%	909,000	580,000	-	89,000	491,000	17,400	-
			\$ 4,994,000	-	-	367,000	4,627,000	149,820	-

See accompanying independent auditor's report.

City of Manchester
Bond and Note Maturities
June 30, 2017
Schedule 3

Year Ending June 30,	General Obligation Bonds																				
	Corporate Purpose and Refunding, Series 2010		Water Improvement, Series 2010B		Corporate Purpose and Refunding, Series 2010A		Corporate Purpose and Refunding, Series 2011A		Corporate Purpose and Refunding, Series 2012		Corporate Purpose and Refunding, Series 2013		Corporate Purpose and Refunding, Series 2014A		Corporate Purpose, Series 2015A		Corporate Purpose, Series 2015B		Corporate Purpose, Series 2017		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2018	3.25%	\$ 145,000	2.40%	\$ 55,000	1.60%	\$ 95,000	0.95%	\$ 125,000	1.10%	\$ 165,000	1.50%	\$ 300,000	1.00%	\$ 185,000	1.20%	\$ 50,000	1.20%	\$ 50,000	1.20%	\$ 50,000	\$ 1,120,000
2019	3.40%	145,000	2.70%	60,000	1.60%	70,000	1.05%	100,000	1.70%	80,000	1.70%	55,000	1.30%	190,000	1.20%	250,000	1.20%	250,000	1.20%	250,000	950,000
2020	3.60%	150,000	3.00%	60,000	1.60%	20,000	1.30%	100,000	1.70%	80,000	1.70%	55,000	1.50%	195,000	1.40%	225,000	1.40%	225,000	1.40%	225,000	885,000
2021	-	-	3.15%	60,000	-	-	1.50%	105,000	1.70%	80,000	1.70%	55,000	1.70%	195,000	1.50%	220,000	1.50%	220,000	1.50%	220,000	715,000
2022	-	-	-	-	-	-	1.70%	105,000	2.10%	85,000	2.05%	55,000	1.85%	200,000	1.65%	235,000	1.65%	235,000	1.65%	235,000	680,000
2023	-	-	-	-	-	-	1.90%	105,000	2.10%	85,000	2.05%	55,000	2.00%	205,000	1.80%	185,000	1.80%	185,000	1.80%	185,000	635,000
2024	-	-	-	-	-	-	-	-	2.45%	90,000	2.40%	60,000	1.15%	210,000	1.95%	185,000	1.95%	185,000	1.95%	185,000	545,000
2025	-	-	-	-	-	-	-	-	2.45%	70,000	2.40%	55,000	2.30%	215,000	2.10%	195,000	2.10%	195,000	2.10%	195,000	555,000
2026	-	-	-	-	-	-	-	-	-	-	-	-	-	220,000	2.25%	200,000	2.25%	200,000	2.25%	200,000	420,000
2027	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.40%	205,000	205,000
		\$ 440,000		\$ 235,000		\$ 185,000		\$ 640,000		\$ 735,000		\$ 690,000		\$ 1,815,000		\$ 1,950,000		\$ 1,950,000		\$ 6,690,000	

Year Ending June 30,	Revenue Bonds											
	Sewer Revenue		Water Revenue		Sewer Revenue		Water Revenue		Sewer Revenue		Water Revenue	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2018	3.00%	\$ 287,000	3.00%	\$ 92,000	3.00%	\$ 92,000	3.00%	\$ 92,000	3.00%	\$ 92,000	3.00%	\$ 92,000
2019	3.00%	297,000	3.00%	95,000	3.00%	95,000	3.00%	95,000	3.00%	95,000	3.00%	95,000
2020	3.00%	306,000	3.00%	98,000	3.00%	98,000	3.00%	98,000	3.00%	98,000	3.00%	98,000
2021	3.00%	316,000	3.00%	101,000	3.00%	101,000	3.00%	101,000	3.00%	101,000	3.00%	101,000
2022	3.00%	327,000	3.00%	105,000	3.00%	105,000	3.00%	105,000	3.00%	105,000	3.00%	105,000
2023	3.00%	337,000	-	-	-	-	-	-	3.00%	337,000	-	-
2024	3.00%	348,000	-	-	-	-	-	-	3.00%	348,000	-	-
2025	3.00%	359,000	-	-	-	-	-	-	3.00%	359,000	-	-
2026	3.00%	371,000	-	-	-	-	-	-	3.00%	371,000	-	-
2027	3.00%	383,000	-	-	-	-	-	-	3.00%	383,000	-	-
2028	3.00%	396,000	-	-	-	-	-	-	3.00%	396,000	-	-
2029	3.00%	409,000	-	-	-	-	-	-	3.00%	409,000	-	-
		\$ 4,136,000		\$ 491,000		\$ 491,000		\$ 491,000		\$ 491,000		\$ 491,000
		\$ 4,136,000		\$ 491,000		\$ 491,000		\$ 491,000		\$ 491,000		\$ 4,627,000

See accompanying independent auditor's report.

City of Manchester

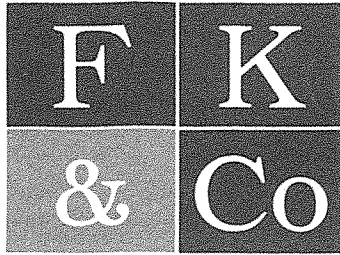
Schedule 4

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

For the Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Receipts:										
Property tax	\$2,437,719	2,372,959	2,487,134	2,487,134	2,418,612	2,369,851	2,362,026	2,266,457	2,141,137	1,898,935
Tax increment financing	425,009	463,133	460,648	460,648	482,885	448,997	343,304	329,835	366,070	213,627
Other city tax	945,201	897,207	808,153	808,153	514,562	539,479	513,902	481,171	519,710	448,700
Licenses and permits	29,559	37,712	59,605	59,605	68,386	81,250	29,424	26,796	64,698	65,310
Use of money and property	39,413	28,718	30,264	30,264	39,947	37,534	46,165	36,098	53,667	75,557
Intergovernmental	1,279,513	1,979,901	1,568,778	1,568,778	1,788,742	1,164,408	1,586,056	1,606,068	1,276,460	950,759
Charges for service	448,882	462,203	450,766	450,766	453,975	467,608	483,805	449,380	456,697	475,543
Special assessments	87,888	101,080	151,447	151,447	122,288	115,749	119,917	97,815	152,715	197,318
Miscellaneous	522,908	328,965	288,780	288,780	313,766	572,786	219,790	300,550	309,807	673,164
Total	\$6,216,092	6,671,878	6,305,575	6,305,575	6,203,163	5,797,662	5,704,389	5,594,170	5,340,961	4,998,913
Disbursements:										
Operating:										
Public safety	\$1,938,818	1,333,712	1,283,259	1,283,259	1,349,987	1,307,833	1,298,604	1,205,421	1,097,889	1,016,739
Public works	1,323,550	1,026,969	1,210,853	1,210,853	1,003,015	1,077,500	1,091,486	1,073,190	1,049,184	969,377
Culture and recreation	974,281	1,034,405	849,916	849,916	951,894	797,076	764,461	731,011	746,814	637,416
Community and economic development	512,343	256,771	328,015	328,015	291,464	201,313	269,224	198,688	192,906	524,084
General government	348,554	310,751	235,480	235,480	1,241,754	284,863	229,292	205,237	232,318	493,263
Debt service	1,297,663	1,233,413	1,703,677	1,703,677	1,887,366	1,125,583	1,108,798	1,529,018	1,732,730	954,345
Capital projects	1,114,987	2,142,961	1,952,614	1,952,614	1,724,147	1,425,513	1,220,334	2,017,135	3,131,933	2,177,133
Total	\$7,510,196	7,338,982	7,563,814	7,563,814	8,449,627	6,219,681	5,982,199	6,959,700	8,183,774	6,772,357

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

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

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the 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 (City) as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify deficiencies in internal control, described in the accompanying Schedule of Findings as items (A), (B), (C) and (D) we consider to be material weaknesses.

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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 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.

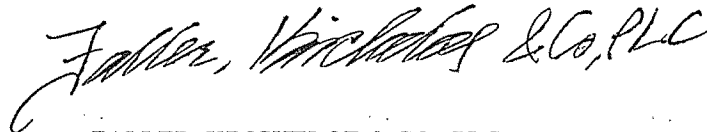
City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
November 28, 2017

City of Manchester
Schedule of Findings
Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City of Manchester’s (City) financial statements.

Condition – Generally, one or two individuals have control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Payroll – recordkeeping, preparation and distribution.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Preparation of Financial Statements

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City of Manchester

Schedule of Findings

Year ended June 30, 2017

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the City. The outside party does not have the constant contact with ongoing financial transactions.

Recommendation - We recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion – Response acknowledged.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition – Although the City’s utility software generates monthly reports of utility billings, collections and delinquent accounts, the amounts are not reconciled from month to month. In addition, delinquent account listings are not maintained on a monthly basis.

Cause – Policies have not been established and procedures have not been implemented to ensure monthly utility billings, collections and delinquent accounts are reconciled each month to the City’s financial and utility billing records and that delinquent account listings are maintained on a monthly basis.

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The City should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported. In addition, the City should maintain delinquent account listings on a monthly basis.

Response – The City will ensure utility reconciliations are properly supported and reviewed and that delinquent account listings are maintained on a monthly basis.

Conclusion – Response acknowledged.

(D) Fund Reclassifications

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting of all funds by maintaining appropriate accounting records.

Condition – The City did not properly classify funds in accordance with Governmental Accounting Standards Board (GASB) Statement Number 54 requirements. Some funds were classified as Special Revenue Funds when they should have been classified as part of the General Fund.

City of Manchester
Schedule of Findings
Year ended June 30, 2017

Cause – Policies and procedures have not been designed and implemented to ensure the City properly classifies funds in accordance with GASB Statement Number 54 requirements.

Effect – The lack of policies can result in lack of proper classification of funds in the City's financial statements.

Recommendation – The City should implement procedures to ensure all funds are classified in accordance with GAB Statement Number 54 requirements.

Response – The City will implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Manchester
Schedule of Findings
Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – During the year ended June 30, 2017, disbursements did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursement that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City of Manchester (City) money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees of the primary government are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Becker Electric, owned by mother of employee Perry Peterson’s partner	Electrical work	\$14,711
Linda Fangmann, City employee Independent contractor	CPR training	336
Erica Foley, wife of employee Doug Foley	Volleyball instructor	150
Donald Detrich, grandfather of employee Nate Detrich	Appliance	549
Mark Fink, brother-in-law to employee Chad Eschen	Hauling and material purchase	1,810

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions with Linda Fangmann, Erica Foley and Donald Detrich do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

The transactions with Becker Electric and Mark Fink may represent a conflict of interest since they were for more than \$1,500 and the City did not enter into the contract through competitive bid in accordance with Chapter 362.5(3)(d) and (j) of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response – We will consult our Attorney in relation to this issue.

Conclusion – Response acknowledged.

- (5) 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 ensure that the coverage is adequate for current operations.

City of Manchester

Schedule of Findings

Year ended June 30, 2017

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

A summary of all receipts was not published in the newspaper. Some City Council minutes, and related claims, were not published within fifteen days of the City Council meetings. Other Council minutes, and related claims, were not published at all. Some invoices were not approved by the City Council. Chapter 372.13(6) of the Code of Iowa requires a summary of all receipts, council minutes, and all claims be published in the newspaper within fifteen days of the City Council meeting. In addition, this same Code Section requires that the City Council approve all claims.

The City Council went into closed session at times during the fiscal year. The minutes record did not document the vote of each member on the question of holding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The City should implement procedures to ensure that a summary of all receipts, and all City Council minutes and related claims are included in the newspaper publication. In addition, the City should ensure that all this information is timely published in the newspaper as required by the Code of Iowa. The City should also implement procedures to ensure that all claims are approved by the City Council. The City should also comply with Chapter 21 of the Code of Iowa in regards to closed sessions and documenting in the minutes the votes of each member.

Response - We will implement these recommendations.

Conclusion - Response acknowledged.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- (9) Compliance Issues – We noted that the City paid sales tax on three separate transactions. As a governmental entity, the City is exempt from the payment of sales tax to the State of Iowa.

Instances were noted where elected officials did not have Social Security withholding from their paycheck. Elected officials pay is subject to Social Security withholding unless they opt out of coverage.

Recommendation – The City should implement procedures to ensure sales tax is not paid on purchases, and that Social Security withholdings are made from elected officials paychecks.

Response – The above was an oversight on our part; we will implement this recommendation in the future.

Conclusion – Response acknowledged.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

City of Manchester
Schedule of Findings
Year ended June 30, 2017

Response – We will implement this recommendation

Conclusion – Response acknowledged.

- (11) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

We noted City's TIF debt certifications to the County Auditor include amounts relating to rebate obligations which include an annual appropriation clause. Until appropriated, these payments do not represent debt and, accordingly, should not have been certified as debt.

Recommendation – The City should consult TIF legal counsel to determine the disposition of this issue. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification.

Response – The City will consult TIF legal counsel, make corrections to the TIF certification and ensure the future certifications are in compliance with the Code of Iowa requirements.

Conclusion – Response acknowledged.

- (12) Tax Increment Financing Fund Disbursements – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable LMI assistance.

During the year ended June 30, 2017, the City paid \$15,494 of claims for professional services and publication costs from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for these unallowable costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

Response – We will consult with legal counsel in relation to this.

Conclusion – Response acknowledged.

City of Manchester

Schedule of Findings

Year ended June 30, 2017

- (13) Annual Urban Renewal Report (AURR) – The AURR report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the beginning and ending debt balances as reported on the AURR do not agree to the City's records.

Recommendation – The City should ensure the balances reported on the Levy Authority Summary on the AURR agree with the City's records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.