

CITY OF MANCHESTER
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2018

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City of Manchester

Officials

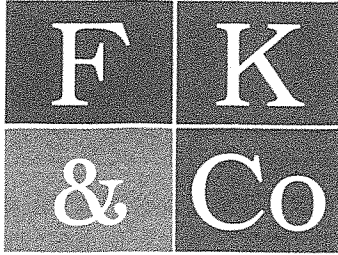
(Before January 2018)

<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 Manager	Indefinite
Erin Learn	City Clerk/Treasurer	Indefinite
James Peters	City Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Milt Kramer	Mayor	Jan 2022
Mary Ann Poyner	Council Member	Jan 2022
Ron Struble	Council Member	Jan 2022
Connie Behnken	Council Member	Jan 2020
Dean Sherman	Council Member	Jan 2020
Dan Stelken	Council Member	Jan 2020
Timothy Vick	City Manager	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, 2018, 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, 2018, 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.

Emphasis of a Matter

As discussed in Note 8 to the financial statements, the City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. 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. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight 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 October 15, 2018 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

October 15, 2018

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, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 2.8%, or approximately \$226,000 from fiscal year 2017 to fiscal year 2018. Bond proceeds decreased approximately \$511,000 due to less bonds issued in fiscal years 2018 compared to fiscal year 2017.
- Disbursements of the City's governmental activities decreased 4.2%, or approximately \$313,000 in fiscal year 2018 from fiscal year 2017. Public safety, public works and community and economic development disbursements decreased approximately \$481,000, \$138,000 and \$183,000, respectively. In addition, capital projects disbursements increased approximately \$544,000.
- The City's total cash basis net position increased 21.8%, or approximately \$957,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities increased approximately \$672,000 and the cash basis net position of the business type activities increased approximately \$284,000.

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 Deposits 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 \$3.792 million to approximately \$4.464 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,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service	\$ 974	631
Operating grants, contributions and restricted interest	989	1,444
Capital grants, contributions and restricted interest	225	25
General receipts:		
Property tax	2,442	2,438
Tax increment financing	526	425
Other city tax	409	385
Local option sales tax	494	513
Hotel/Motel tax	46	47
Commercial/industrial tax replacement	294	291
Unrestricted interest on investments	23	18
Proceeds of general obligation bonds	1,429	1,940
Sale of capital assets	111	51
Insurance reimbursement	20	-
Total receipts	<u>7,982</u>	<u>8,208</u>
Disbursements:		
Public safety	1,458	1,939
Public works	1,186	1,324
Culture and recreation	936	974
Community and economic development	329	512
General government	347	349
Debt service	1,283	1,298
Capital projects	1,659	1,115
Total disbursements	<u>7,198</u>	<u>7,511</u>
Change in cash basis net position before transfers	784	697
Transfers, net	<u>(112)</u>	221
Change in cash basis net position	672	918
Cash basis net position beginning of year	<u>3,792</u>	<u>2,874</u>
Cash basis net position end of year	<u>\$ 4,464</u>	<u>3,792</u>

The City's total receipts for governmental activities decreased 2.8%, or approximately \$226,000 under the prior year. The total cost of all programs and services decreased approximately \$313,000, or 4.2%, with no new programs added this year. The decrease in receipts was the result of less bond proceeds received in fiscal year 2018 compared to fiscal year 2017. The decrease in program costs was the result of a decrease in public safety, public works and community and economic development disbursements.

The City maintained a slight increase in the property tax dollar request for fiscal year 2018. Property tax receipts increased by approximately \$4,000 in fiscal year 2018. Property tax receipts are budgeted to remain relatively constant next year.

The cost of all governmental activities this year was approximately \$7.198 million compared to approximately \$7.511 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 \$5.01 million because some of the cost was paid by those directly benefited from the programs (approximately \$974,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$1,214,000). 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, increased in fiscal year 2018 from approximately \$2,100,000 to approximately \$2,188,000, principally due to increased capital grants, contributions and restricted interest in fiscal year 2018 compared to fiscal year 2017.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 801	784
Sewer	1,107	1,082
Meter deposits	9	10
General receipts:		
Unrestricted interest on investments	3	3
Total receipts	<u>1,920</u>	<u>1,879</u>
Disbursements:		
Water	631	717
Sewer	1,108	941
Meter deposits	9	10
Total disbursements	<u>1,748</u>	<u>1,668</u>
Change in cash basis net position before transfers	172	211
Transfers, net	<u>112</u>	<u>(221)</u>
Change in cash basis net position	284	(10)
Cash basis net position beginning of year	<u>592</u>	<u>602</u>
Cash basis net position end of year	<u>\$ 876</u>	<u>592</u>

Total business type activities receipts for the fiscal year were approximately \$1.920 million compared to approximately \$1.879 million last year. The increase was primarily due to an increase in charges for service receipts. The cash balance increased approximately \$284,000 from the prior year due to an increase in transfers in. Total disbursements for the fiscal year increased 4.8% to approximately \$1,748,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$4,464,238 an increase of more than \$672,000 above last year's total of \$3,791,670. 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 increased by \$113,330 from the prior year to \$959,622. 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 \$151,263 from the prior year to \$511,253. 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 increased by \$4,799 from the prior year to \$116,997. 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 \$26,917 from the prior year to \$153,516. Bond principal and interest payments decreased by \$15,264 in fiscal year 2018.
- The Capital Projects Fund cash balance increased by \$312,352 to \$2,130,941. 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 \$107,919 to \$318,589. 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 \$176,173 to \$508,237. 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 \$222,818 less than the amended budgeted. This was primarily due to the City receiving less miscellaneous receipts than anticipated.

The City's disbursements were \$786,240 less than budgeted. Disbursements in the capital projects and business type activities functions were \$304,223 and \$135,227 less than the amended budget amounts.

The original budget for fiscal year 2018 was approved by the City Council on March 13, 2017, and later amended on May 29, 2018. The budget amendment was primarily necessitated because of capital improvement projects and the 2018 general obligation bond issue.

DEBT ADMINISTRATION

At June 30, 2018, the City had approximately \$11,253,000 in bonds and other long-term debt outstanding, compared to approximately \$11,317,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2018	2017
General obligation bonds	\$ 7,005	6,690
Revenue bonds	4,248	4,627
Total	\$ 11,253	11,317

Debt increased due to the addition of new debt in fiscal year 2018, but decreased due to the payoff of existing debt. In total, long-term debt decreased \$64,000 from June 30, 2017 to June 30, 2018.

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 \$7,005,000 is significantly below its constitutional debt limit of \$14,482,378. Additional information about the City’s long-term debt is presented in Note 4 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 2018-19 budget.

These indicators were taken into account when adopting the budget for fiscal year 2019. Based on the tax rate of \$15.57523 per \$1,000 of taxable valuation, the City expects to generate \$2,771,590 in property tax receipts for fiscal year 2018. Receipts from all funds, including Enterprise Funds, are anticipated to be \$13,004,241.

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, 2018

	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	\$ 1,458,336	203,375	150,076	-	(1,104,885)	-	(1,104,885)
Public works	1,185,878	298,697	687,636	159,961	(39,584)	-	(39,584)
Culture and recreation	936,497	165,893	76,623	-	(693,981)	-	(693,981)
Community and economic development	329,370	83,863	5,566	14,264	(225,677)	-	(225,677)
General government	346,705	55,084	25,388	-	(266,233)	-	(266,233)
Debt service	1,282,399	-	1,181	-	(1,281,218)	-	(1,281,218)
Capital projects	1,659,283	167,272	42,057	50,998	(1,398,956)	-	(1,398,956)
Total governmental activities	7,198,468	974,184	988,527	225,223	(5,010,534)	-	(5,010,534)
Business type activities:							
Water	630,518	800,567	-	-	-	170,049	170,049
Sewer	1,107,863	1,107,005	-	-	-	(858)	(858)
Meter deposits	8,746	8,700	-	-	-	(46)	(46)
Total business type activities	1,747,127	1,916,272	-	-	-	169,145	169,145
Total	\$ 8,945,595	2,890,456	988,527	225,223	(5,010,534)	169,145	(4,841,389)
General Receipts and Transfers:							
Property tax and other city tax levied for:							
General purposes					1,908,337	-	1,908,337
Debt service					533,901	-	533,901
Tax increment financing					525,838	-	525,838
Other city tax					408,888	-	408,888
Local option sales tax					494,239	-	494,239
Hotel/Motel tax					46,035	-	46,035
Commercial/industrial tax replacement					294,613	-	294,613
Unrestricted interest on investments					22,796	2,718	25,514
Proceeds of general obligation bonds, net of \$5,740 discount					1,429,260	-	1,429,260
Miscellaneous					14	-	14
Sale of capital assets					111,348	-	111,348
Insurance reimbursement					20,303	-	20,303
Transfers					(112,470)	112,470	-
Total general receipts and transfers					5,683,102	115,188	5,798,290
Change in cash basis net position					672,568	284,333	956,901
Cash basis net position beginning of year					3,791,670	591,933	4,383,603
Cash basis net position end of year					\$ 4,464,238	876,266	5,340,504
Cash Basis Net Position							
Restricted:							
Expendable:							
Streets					\$ 511,253	-	511,253
Urban renewal purposes					88,499	-	88,499
Debt service					153,516	327,061	480,577
Capital projects					1,964,527	-	1,964,527
Franchise fees					230,270	-	230,270
Other purposes					620,407	49,440	669,847
Unrestricted					895,766	499,765	1,395,531
Total cash basis net position					\$ 4,464,238	876,266	5,340,504

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, 2018

	Special Revenue						Total
	General	Road Use Tax	Employee Benefit	Debt Service	Capital Projects	Nonmajor	
Receipts:							
Property tax	\$ 1,366,541	-	541,796	533,901	-	-	2,442,238
Tax increment financing	-	-	-	-	-	525,838	525,838
Other city tax	418,265	-	-	-	-	494,238	912,503
Licenses and permits	64,325	-	-	-	-	-	64,325
Use of money and property	28,366	-	-	1,181	1,309	3,722	34,578
Intergovernmental	638,564	660,789	53,220	52,750	74,221	71,672	1,551,216
Charges for service	437,071	-	-	-	-	-	437,071
Special assessments	-	-	-	-	167,272	-	167,272
Miscellaneous	158,904	-	45,227	-	18,833	64,590	287,554
Total receipts	3,112,036	660,789	640,243	587,832	261,635	1,160,060	6,422,595
Disbursements:							
Operating:							
Public safety	1,156,013	-	290,621	-	-	11,702	1,458,336
Public works	661,169	454,398	70,311	-	-	-	1,185,878
Culture and recreation	778,173	-	119,704	-	-	38,620	936,497
Community and economic development	294,580	-	22,509	-	-	12,281	329,370
General government	214,406	-	132,299	-	-	-	346,705
Debt service	-	-	-	1,282,399	-	-	1,282,399
Capital projects	-	-	-	-	1,659,283	-	1,659,283
Total disbursements	3,104,341	454,398	635,444	1,282,399	1,659,283	62,603	7,198,468
Excess (deficiency) of receipts over (under) disbursements	7,695	206,391	4,799	(694,567)	(1,397,648)	1,097,457	(775,873)
Other financing sources (uses):							
Proceeds of general obligation bonds, net of \$5,740 discount	-	-	-	1,429,260	-	-	1,429,260
Sale of capital assets	111,348	-	-	-	-	-	111,348
Insurance reimbursement	20,303	-	-	-	-	-	20,303
Transfers in	30,000	-	-	692,224	1,710,000	26,016	2,458,240
Transfers out	(36,016)	(55,128)	-	(1,400,000)	-	(1,079,566)	(2,570,710)
Total other financing sources (uses)	125,635	(55,128)	-	721,484	1,710,000	(1,053,550)	1,448,441
Change in cash balances	133,330	151,263	4,799	26,917	312,352	43,907	672,568
Cash balances beginning of year	826,292	359,990	112,198	126,599	1,818,589	548,002	3,791,670
Cash balances end of year	\$ 959,622	511,253	116,997	153,516	2,130,941	591,909	4,464,238
Cash Basis Fund Balances							
Restricted for:							
Streets	\$ -	511,253	-	-	-	-	511,253
Urban renewal purposes	-	-	-	-	-	88,499	88,499
Debt service	-	-	-	153,516	-	-	153,516
Capital projects	-	-	-	-	1,964,527	-	1,964,527
Franchise fees	230,270	-	-	-	-	-	230,270
Other purposes	-	-	116,997	-	-	503,410	620,407
Assigned	158,245	-	-	-	166,414	-	324,659
Unassigned	571,107	-	-	-	-	-	571,107
Total cash basis fund balances	\$ 959,622	511,253	116,997	153,516	2,130,941	591,909	4,464,238

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, 2018

	Enterprise			Total
	Water	Sewer	Nonmajor - Meter Deposits	
Operating receipts:				
Rental income	\$ 28,523	-	-	28,523
Charges for service	772,044	1,107,005	-	1,879,049
Miscellaneous	-	-	8,700	8,700
Total operating receipts	<u>800,567</u>	<u>1,107,005</u>	<u>8,700</u>	<u>1,916,272</u>
Operating disbursements:				
Business type activities	472,060	500,193	8,746	980,999
Total operating disbursements	<u>472,060</u>	<u>500,193</u>	<u>8,746</u>	<u>980,999</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>328,507</u>	<u>606,812</u>	<u>(46)</u>	<u>935,273</u>
Non-operating receipts (disbursements):				
Interest on investments	-	2,431	287	2,718
Debt service	(107,958)	(421,420)	-	(529,378)
Capital projects	(50,500)	(186,250)	-	(236,750)
Net non-operating receipts (disbursements)	<u>(158,458)</u>	<u>(605,239)</u>	<u>287</u>	<u>(763,410)</u>
Excess of receipts over disbursements	<u>170,049</u>	<u>1,573</u>	<u>241</u>	<u>171,863</u>
Other financing sources (uses):				
Transfers in	-	200,000	-	200,000
Transfers out	(62,130)	(25,400)	-	(87,530)
Total other financing sources (uses)	<u>(62,130)</u>	<u>174,600</u>	<u>-</u>	<u>112,470</u>
Change in cash balances	107,919	176,173	241	284,333
Cash balances beginning of year	<u>210,670</u>	<u>332,064</u>	<u>49,199</u>	<u>591,933</u>
Cash balances end of year	<u>\$ 318,589</u>	<u>508,237</u>	<u>49,440</u>	<u>876,266</u>
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 36,548	290,513	-	327,061
Meter deposits	-	-	49,440	49,440
Unrestricted	<u>282,041</u>	<u>217,724</u>	<u>-</u>	<u>499,765</u>
Total cash basis fund balances	<u>\$ 318,589</u>	<u>508,237</u>	<u>49,440</u>	<u>876,266</u>

See notes to financial statements.

City of Manchester

Notes to Financial Statements

June 30, 2018

(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, 2018 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) **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, 2018 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 December 31, 2019. The loan bears no interest and is unsecured. The balance owed on this loan at June 30, 2018 is \$3,000.
- 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, 2018 is \$8,167.

In addition to the above loans, the City made an additional two loans. The following loans were outstanding at June 30, 2018.

- A \$50,000 loan was made 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, 2018 is \$5,457.
- A \$100,000 loan was made to Boulders Inn Manchester, LLC to construct a new hotel in Manchester. The annual interest rate is 4% and the City obtained a promissory note from the borrower. The principal advanced in relation to this loan and accrued interest is due to the City on July 1, 2025, unless it is forgiven prior to this date. Principal on this debt shall be forgiven annually on each June 30 commencing June 30, 2019 and continuing to, and including, June 30, 2027. The amount of forgiveness on each forgiveness date shall be equal to 50% of the annual revenues generated solely by the new hotel arising from taxes collected by the City pursuant to Iowa Code Section 423A.7 during the twelve month period immediately preceding each forgiveness date. The principal balance owed on this loan at June 30, 2018 is \$100,000.

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

(4) 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
2019	\$1,060,000	143,919	392,000	127,440	1,452,000	271,359
2020	1,075,000	125,264	404,000	115,680	1,479,000	240,944
2021	860,000	104,464	417,000	103,560	1,277,000	208,024
2022	825,000	89,116	432,000	91,050	1,257,000	180,166
2023	785,000	73,651	337,000	78,090	1,122,000	151,741
2024-2028	2,315,000	146,408	1,857,000	232,080	4,172,000	378,488
2029	85,000	2,635	409,000	12,270	494,000	14,905
	<u>\$7,005,000</u>	<u>685,457</u>	<u>4,248,000</u>	<u>760,170</u>	<u>11,253,000</u>	<u>1,445,627</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 68% of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,578,750. For the current year, principal and interest paid and total customer net receipts were \$411,080 and \$606,812, 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 33% of net receipts. The total principal and interest remaining to be paid on the bonds is \$429,420. For the current year, principal and interest paid and total customer net receipts were \$106,730 and \$328,507, 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.

(5) Lease Purchase Agreement

On May 17, 2018, the City entered into a lease-purchase agreement to lease a telephone system. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreement in effect at June 30, 2018:

Year Ended June 30,	Amount
2019	\$ 19,800
2020	11,196
2021	11,196
2022	11,197
Total minimum lease payments	53,389
Less amount representing interest	(5,586)
Present value of net minimum lease payments	<u>\$ 47,803</u>

Payments under this lease-purchase agreement totaled \$0 during the year ended June 30, 2018.

(6) 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, 2018:

Year Ended June 30,	Amount
2019	\$ 27,133
2020	4,788
	<u>\$ 31,921</u>

During the fiscal year, total expenditures incurred in relation to these lease agreements were \$26,948.

(7) **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% 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% 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 2018, 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, 2018 were \$176,689.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$1,234,521 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City's proportion was 0.0185328%, which was an increase of 0.000999% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$221,648, \$621,976 and \$359,073, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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
Domestic equity	24.0 %	6.25 %
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	100.0 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. 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 7.00%, 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 (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 2,351,892	1,234,521	296,052

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.

(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. Group insurance benefits are established under Iowa Code Chapter 509A.13. 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 range from \$456 for single coverage to \$1,399 for family coverage. For the year ended June 30, 2018, the City contributed \$266,370 and plan members eligible for benefits contributed \$55,118 to the plan. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. 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.

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	2
Active employees	<u>28</u>
Total	<u><u>30</u></u>

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Urban Renewal Tax Increment	\$ 30,000
Special Revenue: Park Improvement	General	<u>20,716</u>
Special Revenue: Tirrill Trust	General	<u>5,300</u>
Debt Service	Special Revenue: Road Use Tax	55,128
	Urban Renewal Tax Increment	549,566
	Enterprise: Water	62,130
	Sewer	<u>25,400</u>
		<u>692,224</u>
Capital Projects	General	10,000
	Special Revenue: Local Option Sales Tax	500,000
	Debt Service	<u>1,200,000</u>
		<u>1,710,000</u>
Sewer	Debt Service	<u>200,000</u>
	Total	<u><u>\$ 2,658,240</u></u>

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

(10) Lease Income

The City is leasing antenna space on the water tower and City buildings to communication providers. The length of the lease terms are 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 \$28,523 from tenants in fiscal year 2018 from these leases.

(11) Termination Benefits

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

- 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, 2018, the City has obligations to two participants with a total liability of \$38,400. Actual early retirement expenditures for the year ended June 30, 2018 totaled \$12,000.

- 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, 2018, the City has obligations to two participants with a total liability of \$52,000. Actual early retirement expenditures for the year ended June 30, 2018 totaled \$17,000.

(12) 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, 2018, was \$167,645. The liability has been computed based on rates of pay in effect at June 30, 2018.

(13) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$62,646 during the year ended June 30, 2018.

(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) 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 \$1,024,330.

The City rebated \$30,000 during fiscal year 2018. The outstanding balance of the agreements at June 30, 2018 subject to annual appropriation was \$1,024,330.

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.

(16) 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 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, 2018, the City abated \$30,000 of property tax under the urban renewal and economic development projects.

(17) Commitments

The City has entered into various agreements for street reconstruction and the riverfront development project. As of June 30, 2018, approximately \$1,676,000 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 2019. The City intends to pay for these costs from existing cash reserves.

(18) 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.

(19) Fund Balance

The City's assigned fund balance in the General Fund as of June 30, 2018 consists of the following:

<u>Purpose</u>	<u>Amount</u>
Fire department	\$ 92,267
Animal control	591
Street reserve	65,242
Airport	<u>145</u>
Total	<u>\$ 158,245</u>

(20) Subsequent Events

The City has evaluated all subsequent events through October 15, 2018, the date the financial statements were available to be issued.

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, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 2,442,238	-	2,442,238	2,502,912	2,502,912	(60,674)
Tax increment financing	525,838	-	525,838	577,306	557,306	(31,468)
Other city tax	912,503	-	912,503	983,642	985,400	(72,897)
Licenses and permits	64,325	-	64,325	37,130	37,360	26,965
Use of money and property	34,578	31,241	65,819	32,581	56,386	9,433
Intergovernmental	1,551,216	-	1,551,216	1,127,146	1,513,806	37,410
Charges for service	437,071	1,879,049	2,316,120	2,464,884	2,343,346	(27,226)
Special assessments	167,272	-	167,272	132,000	155,000	12,272
Miscellaneous	287,554	8,700	296,254	209,571	412,887	(116,633)
Total receipts	6,422,595	1,918,990	8,341,585	8,067,172	8,564,403	(222,818)
Disbursements:						
Public safety	1,458,336	-	1,458,336	1,748,731	1,540,990	82,654
Public works	1,185,878	-	1,185,878	1,339,762	1,328,276	142,398
Culture and recreation	936,497	-	936,497	890,101	1,003,916	67,419
Community and economic development	329,370	-	329,370	273,096	363,564	34,194
General government	346,705	-	346,705	295,644	361,391	14,686
Debt service	1,282,399	-	1,282,399	1,280,539	1,287,838	5,439
Capital projects	1,659,283	-	1,659,283	2,262,800	1,963,506	304,223
Business type activities	-	1,747,127	1,747,127	1,569,418	1,882,354	135,227
Total disbursements	7,198,468	1,747,127	8,945,595	9,660,091	9,731,835	786,240
Excess (deficiency) of receipts over (under) disbursements	(775,873)	171,863	(604,010)	(1,592,919)	(1,167,432)	563,422
Other financing sources, net	1,448,441	112,470	1,560,911	-	1,450,000	110,911
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	672,568	284,333	956,901	(1,592,919)	282,568	674,333
Balances beginning of year	3,791,670	591,933	4,383,603	4,916,078	4,383,604	(1)
Balances end of year	\$ 4,464,238	876,266	5,340,504	3,323,159	4,666,172	674,332

See accompanying independent auditor's report.

City of Manchester

Notes to Other Information - Budgetary Reporting

June 30, 2018

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 \$71,744. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2018, 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 Four Years*
(In Thousands)

Other Information

	2018	2017	2016	2015
City's proportion of the net pension liability	0.018533%	0.017534%	0.015865%	0.015066%
City's proportionate share of the net pension liability	\$ 1,235	1,103	784	598
City's covered payroll	\$ 1,932	1,759	1,759	1,706
City's proportionate share of the net pension liability as a percentage of its covered payroll	63.92%	62.70%	44.56%	35.03%
IPERS' net position as a percentage of the total pension liability	82.21%	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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	\$ 177	178	162	159	159	147	135	123	56	105
Contributions in relation to the statutorily required contribution	(177)	(178)	(162)	(159)	(159)	(147)	(135)	(123)	(56)	(105)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered payroll	\$ 1,919	1,932	1,759	1,706	1,708	1,604	1,561	1,563	756	1,432
Contributions as a percentage of covered payroll	9.21%	9.21%	9.21%	9.30%	9.29%	9.14%	8.64%	7.85%	7.42%	7.34%

See accompanying independent auditor's report.

City of Manchester

Notes to Other Information – Pension Liability

Year ended June 30, 2018

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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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, 2015. 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, 2018

	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	\$ 525,838	-	-	-	-	-	-	-	-	-	-	525,838
Other city tax	-	-	494,238	-	-	-	-	-	-	-	-	494,238
Use of money and property	752	10	1,570	994	-	-	64	318	13	-	-	3,722
Intergovernmental	54,741	9,150	-	-	-	-	2,750	5,031	-	-	-	71,672
Miscellaneous	-	7,452	-	-	5,567	113	19,050	16,939	15,469	-	-	64,590
Total receipts	581,331	16,612	495,808	994	5,567	113	21,864	22,288	15,482	-	-	1,160,060
Disbursements:												
Operating:												
Public safety	-	5,443	-	-	-	-	-	-	6,259	-	-	11,702
Culture and recreation	-	-	-	-	-	4,329	19,784	14,507	-	-	-	38,620
Community and economic development	12,281	-	-	-	-	-	-	-	-	-	-	12,281
Total disbursements	12,281	5,443	-	-	-	4,329	19,784	14,507	6,259	-	-	62,603
Excess (deficiency) of receipts over (under) disbursements	569,050	11,169	495,808	994	5,567	(4,216)	2,080	7,781	9,223	-	-	1,097,457
Other financing sources (uses):												
Transfers in	-	-	-	20,716	-	5,300	-	-	-	-	-	26,016
Transfers out	(579,566)	-	(500,000)	-	-	-	-	-	-	-	-	(1,079,566)
Total other financing sources (uses)	(579,566)	-	(500,000)	20,716	-	5,300	-	-	-	-	-	(1,053,550)
Change in cash balances	(10,516)	11,169	(4,192)	21,710	5,567	1,084	2,080	7,781	9,223	-	-	43,907
Cash balances beginning of year	99,015	11,866	151,272	47,329	45,189	1,766	28,333	153,262	6,961	-	-	548,002
Cash balances end of year	\$ 88,499	23,035	147,080	69,039	50,756	2,850	30,413	161,043	16,184	-	-	591,909
Cash Basis Fund Balances												
Restricted for:												
Urban renewal purposes	\$ 88,499	-	-	-	-	-	-	-	-	-	-	88,499
Other purposes	-	23,035	147,080	69,039	50,756	2,850	30,413	161,043	16,184	-	-	503,410
Total cash basis fund balances	\$ 88,499	23,035	147,080	69,039	50,756	2,850	30,413	161,043	16,184	-	-	591,909

See accompanying independent auditor's report.

City of Manchester
Schedule of Indebtedness
Year ended June 30, 2018

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount		Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
			Originally Issued	Balance						
General Obligation Bonds:										
Corporate purpose and refunding, Series 2010	May 15, 2010	1.40-3.60%	\$ 1,865,000	440,000	-	145,000	295,000	15,043	-	
Water improvement, Series 2010B	November 23, 2010	0.85-3.15%	550,000	235,000	-	55,000	180,000	6,630	-	
Corporate purpose, Series 2012	May 3, 2012	0.60-1.60%	1,000,000	185,000	-	95,000	90,000	2,960	-	
Corporate purpose and refunding, Series 2013	April 23, 2013	0.35-1.90%	1,795,000	640,000	-	125,000	515,000	8,893	-	
Corporate purpose and refunding, Series 2014A	May 27, 2014	0.50-2.45%	1,130,000	735,000	-	165,000	570,000	13,385	-	
Refunding, Series 2015A	April 28, 2015	1.50-2.40%	1,375,000	690,000	-	300,000	390,000	12,320	-	
Corporate purpose, Series 2015B	June 23, 2015	0.75-2.45%	2,000,000	1,815,000	-	185,000	1,630,000	33,210	-	
Corporate purpose, Series 2017	June 27, 2017	1.20-2.40%	1,950,000	1,950,000	-	50,000	1,900,000	31,897	-	
Corporate purpose, Series 2018	April 24, 2018	1.80-3.10%	1,435,000	-	1,435,000	-	1,435,000	-	-	
Total			\$ 6,690,000	1,435,000	1,120,000	7,005,000	124,338			
Revenue Bonds:										
Sewer revenue	July 2, 2008	3.00%	\$ 6,010,000	4,136,000	-	287,000	3,849,000	124,080	-	
Water revenue	December 20, 2011	3.00%	909,000	491,000	-	92,000	399,000	14,730	-	
			\$ 4,627,000	-	-	379,000	4,248,000	138,810	-	

See accompanying independent auditor's report.

City of Manchester
Bond and Note Maturities

Schedule 3

June 30, 2018

Year Ending June 30,	General Obligation Bonds											
	Corporate Purpose and Refunding, Series 2010 Issued May 15, 2010	Water Improvement, Series 2010B Issued November 23, 2010	Corporate Purpose, Series 2012 Issued May 3, 2012	Corporate Purpose and Refunding, Series 2013 Issued April 23, 2013	Corporate Purpose and Refunding, Series 2014A Issued May 24, 2014	Refunding, Series 2015A Issued April 28, 2015	Corporate Purpose, Series 2015B Issued June 23, 2015	Corporate Purpose, Series 2017 Issued June 27, 2017	Corporate Purpose, Series 2018 Issued April 24, 2018	Rates	Amount	Total
2019	3.40%	2.70%	1.60%	1.05%	1.70%	1.70%	1.30%	1.20%	1.80%	\$ 145,000	\$ 70,000	\$ 110,000
2020	3.60%	3.00%	1.60%	1.30%	1.70%	1.70%	1.50%	1.40%	1.90%	150,000	20,000	190,000
2021	-	3.15%	-	1.50%	1.70%	1.70%	1.70%	1.50%	2.05%	-	60,000	220,000
2022	-	-	-	1.70%	1.70%	2.05%	1.85%	1.65%	2.20%	-	60,000	235,000
2023	-	-	-	1.90%	2.10%	2.05%	2.00%	1.80%	2.30%	-	105,000	145,000
2024	-	-	-	-	2.10%	2.05%	1.15%	1.95%	2.45%	-	105,000	150,000
2025	-	-	-	-	2.45%	2.40%	2.30%	2.10%	2.60%	-	70,000	155,000
2026	-	-	-	-	-	2.40%	2.25%	2.80%	-	-	-	95,000
2027	-	-	-	-	-	-	2.40%	2.80%	-	-	-	100,000
2028	-	-	-	-	-	-	-	3.10%	-	-	-	110,000
2029	-	-	-	-	-	-	-	3.10%	-	-	-	85,000
										\$ 295,000	\$ 180,000	\$ 1,435,000
												\$ 7,005,000

Year Ending June 30,	Revenue Bonds			
	Sewer Revenue Issued July 2, 2008	Water Revenue Issued December 20, 2011	Rates	Amount
2019	3.00%	3.00%	3.00%	\$ 297,000
2020	3.00%	3.00%	3.00%	306,000
2021	3.00%	3.00%	3.00%	316,000
2022	3.00%	3.00%	3.00%	327,000
2023	3.00%	3.00%	3.00%	337,000
2024	3.00%	3.00%	3.00%	348,000
2025	3.00%	3.00%	3.00%	359,000
2026	3.00%	3.00%	3.00%	371,000
2027	3.00%	3.00%	3.00%	383,000
2028	3.00%	3.00%	3.00%	396,000
2029	3.00%	3.00%	3.00%	409,000
				\$ 3,849,000
				\$ 399,000
				\$ 4,248,000

See accompanying independent auditor's report.

City of Manchester

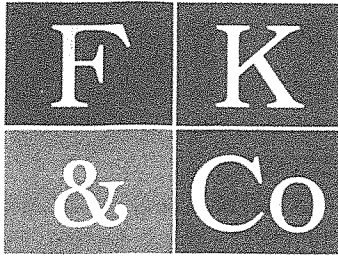
Schedule 4

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

For the Last Ten Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Receipts:										
Property tax	\$2,442,238	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
Tax increment financing	525,838	425,009	463,133	460,648	460,648	482,885	448,997	343,304	329,835	366,070
Other city tax	912,503	945,201	897,207	808,153	808,153	514,562	539,479	513,902	481,171	519,710
Licenses and permits	64,325	29,559	37,712	59,605	59,605	68,386	81,250	29,424	26,796	64,698
Use of money and property	34,578	39,413	28,718	30,264	30,264	39,947	37,534	46,165	36,098	53,667
Intergovernmental	1,551,216	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
Charges for service	437,071	448,882	462,203	450,766	450,766	453,975	467,608	483,805	449,380	456,697
Special assessments	167,272	87,888	101,080	151,447	151,447	122,288	115,749	119,917	97,815	152,715
Miscellaneous	287,554	522,908	328,965	288,780	288,780	313,766	572,786	219,790	300,550	309,807
Total	\$6,422,595	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
Disbursements:										
Operating:										
Public safety	\$1,458,336	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
Public works	1,185,878	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
Culture and recreation	936,497	974,281	1,034,405	849,916	849,916	951,894	797,076	764,461	731,011	746,814
Community and economic development	329,370	512,343	256,771	328,015	328,015	291,464	201,313	269,224	198,688	192,906
General government	346,705	348,554	310,751	235,480	235,480	1,241,754	284,863	229,292	205,237	232,318
Debt service	1,282,399	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
Capital projects	1,659,283	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
Total	\$7,198,468	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

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, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 15, 2018. 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) and (C) 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, 2018 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.

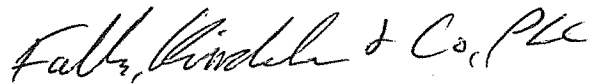
City's Responses to the Findings

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

October 15, 2018

City of Manchester
Schedule of Findings
Year ended June 30, 2018

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, 2018

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.

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 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.

Response – The City will ensure utility reconciliations are properly supported and reviewed on a monthly basis.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Manchester
 Schedule of Findings
 Year ended June 30, 2018

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – During the year ended June 30, 2018, 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	\$ 2,198
Mark Fink, brother-in-law to employee Chad Eschen	Demolition (Competitive Bid) Hauling and labor	55,251 2,363
Brehme Drug, Inc., owned by Ashley Brehme, Planning and Zoning Board Member	Downtown incentive grant	2,484
Price Industrial Electric, Inc. employer of Jeremy DeMoss, Volunteer Fireman	Maintenance	350

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions with Price Industrial Electric, Inc. do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Becker Electric, Brehme Drug and the hauling and labor cost paid to Mark Fink may represent conflict of interests as they were for more than \$1,500.

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, 2018

- (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 consistently published in the newspaper. Some City Council minutes, and related claims, were not published within fifteen days of the City Council meetings. Other City Council minutes were not published at all. 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.

Recommendation - The City should implement procedures to ensure that a summary of all receipts, and all City Council minutes are included in the newspaper publication. In addition, the City should ensure that the City Council minutes and related claims are timely published in the newspaper as required by the Code of Iowa.

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 – 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 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.

Response – We will implement this recommendation

Conclusion – Response acknowledged.

City of Manchester

Schedule of Findings

Year ended June 30, 2018

- (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, 2018, the City paid \$12,281 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.

During the year ended June 30, 2018, the City made a transfer of \$549,566 from the Special Revenue, Urban Renewal Tax Increment Fund to the Debt Service Fund. City personnel identified supporting documentation for the transfer of \$521,992, but was unable to locate supporting documentation for the difference, or \$27,574. As a result, we were unable to determine the propriety of the \$27,574 transfer amount.

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. In addition, the City should consult with TIF legal counsel to determine the propriety of the current year transfers to the Debt Service Fund.

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

Conclusion – Response acknowledged.

City of Manchester

Schedule of Findings

Year ended June 30, 2018

- (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.