

CITY OF MANCHESTER, TENNESSEE

AUDIT REPORT

June 30, 2012



BEAN, RHOTON & KELLEY, PLLC

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June 30, 2012

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INTRODUCTORY SECTION - UNAUDITED

**CITY OF MANCHESTER, TENNESSEE
INTRODUCTORY SECTION - UNAUDITED
June 30, 2012**

OFFICIALS OF THE CITY OF MANCHESTER, TENNESSEE

Elected

| | |
|------------------|------------------------|
| Betty Superstein | Mayor |
| Donnie Thomas | Alderman Vice Mayor |
| Janet Nettles | Alderwoman |
| Ryan French | Alderman |
| Donny Parsley | Alderman |
| Gene Holmes | Alderman |
| Roxanne Patton | Alderwoman |

Appointed

| | |
|------------------|----------------------------------|
| Esther Greene | Finance Director/CFO |
| Ross Simmons | Commissioner of Public Safety |
| Bryan Pennington | Water & Sewer - Director |
| Bonnie Gamble | Parks & Recreation - Director |
| Brent Carter | Public Works Director |
| Kirt Gray | Building and Codes Director |

See Accompanying Independent Auditors' Report.

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Members of American Institute of
Certified Public Accountants,
Tennessee Society of CPA's,
Association of Government Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Board of Aldermen
of the City of Manchester, Tennessee

Manchester, Tennessee

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, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manchester, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the City's governmental activities, and business-type activities are not reasonable determinable.

During our audit, we found a fundamental lack of internal control over assets, particularly in relation to the recording of assets acquired as donations from the United States Department of Defense surplus programs. In addition, we found unrecorded bank accounts held by the police and fire departments, the majority of activity in those funds being undocumented. We also found evidence that certain fundraisers were held in the City's name, the proceeds of which were not able to be identified in any deposits recorded in City accounts.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Manchester, Tennessee, as of June 30, 2012, or the changes in its financial position or, where applicable, its cash flow for the year then ended.

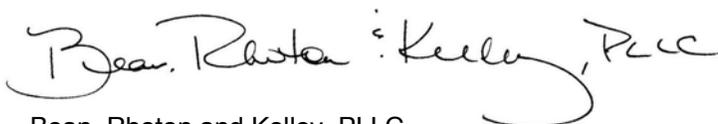
In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013, on our consideration of the City of Manchester, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented the management's discussion and analysis that governmental accounting principles

generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standard generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manchester, Tennessee's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, budgetary comparison for non-major funds and information presented in the other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual non-major fund financial statements, non-major budgetary schedules, schedule of federal awards and other supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is not fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in dark ink and is positioned above the typed name of the firm.

Bean, Rhoton and Kelley, PLLC
Winchester, TN
March 26, 2013

CITY OF MANCHESTER, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012

| | Primary Government | | Total |
|--|----------------------------|-------------------------------|-------------------------|
| | Governmental Activities | Business - type Activities | |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents: | | | |
| Unrestricted | \$ 9,313,035.88 | \$ 3,609,475.72 | \$ 12,922,511.60 |
| Total cash and cash equivalents | 9,313,035.88 | 3,609,475.72 | 12,922,511.60 |
| Receivables: | | | |
| Property taxes | 5,056,267.24 | 0.00 | 5,056,267.24 |
| State shared revenues | 875,652.71 | 0.00 | 875,652.71 |
| Local option sales tax | 682,955.36 | 0.00 | 682,955.36 |
| Customers, less allowance for doubtful accounts | 66,530.02 | 627,146.54 | 693,676.56 |
| Other | 679,888.26 | 182,421.07 | 862,309.33 |
| Total receivables | 7,361,293.59 | 809,567.61 | 8,170,861.20 |
| Inventory of supplies | 68,489.89 | 93,376.73 | 161,866.62 |
| Internal balances | 76,753.17 | (76,753.17) | 0.00 |
| Non depreciable capital assets | 41,865.25 | 249,473.37 | 291,338.62 |
| Capital assets, net of accumulated depreciation | 30,456,326.14 | 34,873,205.00 | 65,329,531.14 |
| Receivable from Duck River Utility District | 0.00 | 10,455,000.00 | 10,455,000.00 |
| Other assets | 132,223.00 | 0.00 | 132,223.00 |
| TOTAL ASSETS | \$ 47,449,986.92 | \$ 50,013,345.26 | \$ 97,463,332.18 |
| LIABILITIES | | | |
| Accounts payable | \$ 372,746.35 | \$ 169,591.50 | \$ 542,337.85 |
| Accrued expenses | 496,920.77 | 147,203.16 | 644,123.93 |
| Customer deposits | 0.00 | 277,076.53 | 277,076.53 |
| Deferred revenue | 5,311,640.77 | 471,500.00 | 5,783,140.77 |
| Other liabilities | 7,337.08 | 0.00 | 7,337.08 |
| Long-term liabilities: | | | |
| Due within one year | 563,571.42 | 474,170.05 | 1,037,741.47 |
| Due in more than one year | 25,423,552.42 | 28,706,763.79 | 54,130,316.21 |
| TOTAL LIABILITIES | \$ 32,175,768.81 | \$ 30,246,305.03 | \$ 62,422,073.84 |
| NET ASSETS | | | |
| Investments in capital assets, net of related debt | \$ 6,541,136.82 | \$ 16,634,102.15 | \$ 23,175,238.97 |
| Restricted for: (Note 10) | | | |
| Specific purposes | 438,475.38 | 0.00 | 438,475.38 |
| ESP | 61,412.44 | 0.00 | 61,412.44 |
| School food service | 285,773.83 | 0.00 | 285,773.83 |
| We Care | 2,611.87 | 0.00 | 2,611.87 |
| Unrestricted | 7,944,807.77 | 3,132,938.08 | 11,077,745.85 |
| TOTAL NET ASSETS | \$ 15,274,218.11 | \$ 19,767,040.23 | \$ 35,041,258.34 |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

| Functions/Programs: | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|--|-------------------------|-------------------------|--|--|--|-----------------------------|-------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary Government: | | | | | | | |
| Government Activities: | | | | | | | |
| City judge | \$ 9,500.04 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ (9,500.04) | \$ 0.00 | \$ (9,500.04) |
| Mayor's office | 390,012.95 | 0.00 | 0.00 | 0.00 | (390,012.95) | 0.00 | (390,012.95) |
| Finance department | 345,895.59 | 0.00 | 0.00 | 0.00 | (345,895.59) | 0.00 | (345,895.59) |
| Police | 2,600,752.79 | 198,247.60 | 123,889.45 | 0.00 | (2,278,615.74) | 0.00 | (2,278,615.74) |
| Fire | 1,984,557.43 | 0.00 | 0.00 | 0.00 | (1,984,557.43) | 0.00 | (1,984,557.43) |
| Public works | 1,444,024.50 | 0.00 | 0.00 | 0.00 | (1,444,024.50) | 0.00 | (1,444,024.50) |
| Sanitation | 959,132.05 | 920,875.71 | 0.00 | 0.00 | (38,256.34) | 0.00 | (38,256.34) |
| Planning and zoning | 266,750.75 | 0.00 | 0.00 | 0.00 | (266,750.75) | 0.00 | (266,750.75) |
| Recreation | 2,031,738.31 | 1,171,341.09 | 0.00 | 18,500.00 | (841,897.22) | 0.00 | (841,897.22) |
| Education | 14,640,267.03 | 412,217.53 | 10,043,605.20 | 0.00 | (4,184,444.30) | 0.00 | (4,184,444.30) |
| General government | 1,122,205.74 | 13,469.69 | 179,426.86 | 8,000.00 | (921,309.19) | 0.00 | (921,309.19) |
| Contributions | 132,610.81 | 0.00 | 0.00 | 0.00 | (132,610.81) | 0.00 | (132,610.81) |
| Interest on debt | 1,068,930.93 | 0.00 | 0.00 | 0.00 | (1,068,930.93) | 0.00 | (1,068,930.93) |
| Total Government Activities | <u>26,996,378.92</u> | <u>2,716,151.62</u> | <u>10,346,921.51</u> | <u>26,500.00</u> | <u>(13,906,805.79)</u> | <u>0.00</u> | <u>(13,906,805.79)</u> |
| Business-type Activities | | | | | | | |
| Water and sewer | 5,425,232.32 | 5,344,190.58 | 0.00 | 683,410.75 | 0.00 | 602,369.01 | 602,369.01 |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>5,425,232.32</u> | <u>5,344,190.58</u> | <u>0.00</u> | <u>683,410.75</u> | <u>0.00</u> | <u>602,369.01</u> | <u>602,369.01</u> |
| TOTAL PRIMARY GOVERNMENTS | <u>\$ 32,421,611.24</u> | <u>\$ 8,060,342.20</u> | <u>\$ 10,346,921.51</u> | <u>\$ 709,910.75</u> | <u>(13,906,805.79)</u> | <u>602,369.01</u> | <u>(13,304,436.78)</u> |
| General Revenues: | | | | | | | |
| Property taxes and in lieu of tax | | | | | 7,241,713.56 | 0.00 | 7,241,713.56 |
| Sales taxes | | | | | 5,124,959.34 | 0.00 | 5,124,959.34 |
| Other state shared taxes | | | | | 1,367,358.73 | 0.00 | 1,367,358.73 |
| Licenses and permits | | | | | 62,981.72 | 0.00 | 62,981.72 |
| Unrestricted investment earnings and rental income | | | | | 50,562.14 | 13,976.42 | 64,538.56 |
| Other | | | | | 886,681.84 | 0.00 | 886,681.84 |
| Total general revenues and transfers | | | | | <u>14,734,257.33</u> | <u>13,976.42</u> | <u>14,748,233.75</u> |
| Change in nets assets | | | | | 827,451.54 | 616,345.43 | 1,443,796.97 |
| Net assets - beginning of year, as previously reported | | | | | 14,439,934.82 | 19,150,694.80 | 33,590,629.62 |
| Restatement (Note 11) | | | | | 6,831.75 | 0.00 | 6,831.75 |
| Net assets - beginning of year, as restated | | | | | <u>14,446,766.57</u> | <u>19,150,694.80</u> | <u>33,597,461.37</u> |
| Net assets - end of year | | | | | <u>\$ 15,274,218.11</u> | <u>\$ 19,767,040.23</u> | <u>\$ 35,041,258.34</u> |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

| | General Fund | General Purpose School Fund | Other Governmental Funds | Total |
|---|------------------------|--------------------------------------|--------------------------------|-------------------------|
| <u>ASSETS</u> | | | | |
| Cash | \$ 1,879,039.25 | \$ 4,290,004.31 | \$ 3,143,992.32 | \$ 9,313,035.88 |
| Receivables, less allowance for doubtful accounts | 6,253,108.08 | 617,760.76 | 386,897.18 | 7,257,766.02 |
| Due from other funds | 640.27 | 0.00 | 76,753.17 | 77,393.44 |
| Prepaid costs | 0.00 | 132,223.00 | 0.00 | 132,223.00 |
| Inventories | 55,240.84 | 0.00 | 13,249.05 | 68,489.89 |
| Total Assets | <u>\$ 8,188,028.44</u> | <u>\$ 5,039,988.07</u> | <u>\$ 3,620,891.72</u> | <u>\$ 16,848,908.23</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 123,948.51 | \$ 82,249.80 | \$ 166,548.04 | \$ 372,746.35 |
| Accrued costs | 132,781.74 | 277,106.20 | 87,032.83 | 496,920.77 |
| Due to other funds | 0.00 | 640.27 | 0.00 | 640.27 |
| Other liabilities | 0.00 | 0.00 | 7,337.08 | 7,337.08 |
| Deferred revenue | 4,996,092.15 | 0.00 | 315,548.62 | 5,311,640.77 |
| Total Liabilities | <u>5,252,822.40</u> | <u>359,996.27</u> | <u>576,466.57</u> | <u>6,189,285.24</u> |
| <u>FUND BALANCES</u> | | | | |
| Nonspendable | 55,240.84 | 132,223.00 | (84,976.83) | 102,487.01 |
| Assigned | 0.00 | 64,024.31 | 0.00 | 64,024.31 |
| Unassigned | 2,879,965.20 | 4,483,744.49 | 3,129,401.98 | 10,493,111.67 |
| Total Fund Balances | <u>2,935,206.04</u> | <u>4,679,991.80</u> | <u>3,044,425.15</u> | <u>10,659,622.99</u> |
| Total Liabilities and Fund Balances | <u>\$ 8,188,028.44</u> | <u>\$ 5,039,988.07</u> | <u>\$ 3,620,891.72</u> | <u>\$ 16,848,908.23</u> |

The accompanying notes are an integral part of this statement.

**CITY OF MANCHESTER, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

| | |
|--|--------------------------------|
| Amounts reported for fund balances - total governmental funds | \$ 10,659,622.99 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets, net of depreciation, are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets. | 30,498,191.39 |
| Certain liabilities are not reported in this fund financial statement because they are not due and payable within one year, but they are presented in the statement of net assets. | |
| Bonds Payable - (\$23,957,054.57) | |
| Loss on Refunding - \$103,527.57 | |
| OPEB Obligation - (\$454,000.00) | |
| Compensated Absences - (\$1,576,069.27) | <u>(25,883,596.27)</u> |
| Net assets of governmental activities | <u><u>\$ 15,274,218.11</u></u> |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

| | General Fund | General Purpose School Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------------|--------------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 9,782,371.65 | \$ 4,097,356.06 | \$ 237,698.30 | \$ 14,117,426.01 |
| Licenses and permits | 62,981.72 | 0.00 | 0.00 | 62,981.72 |
| Fines and fees | 198,247.60 | 0.00 | 0.00 | 198,247.60 |
| Charges for services | 13,469.69 | 190,479.42 | 2,322,723.91 | 2,526,673.02 |
| Intergovernmental | 1,564,913.75 | 6,738,974.32 | 1,603,626.04 | 9,907,514.11 |
| Uses of money and property | 0.00 | 3,937.50 | 46,352.96 | 50,290.46 |
| Miscellaneous | 347,031.72 | 36,819.14 | 607,443.88 | 991,294.74 |
| Total Revenue | <u>11,969,016.13</u> | <u>11,067,566.44</u> | <u>4,817,845.09</u> | <u>27,854,427.66</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| City judge | 9,500.04 | 0.00 | 0.00 | 9,500.04 |
| Mayor's office | 357,230.03 | 0.00 | 0.00 | 357,230.03 |
| Finance department | 361,680.56 | 0.00 | 0.00 | 361,680.56 |
| Police | 2,593,655.67 | 0.00 | 0.00 | 2,593,655.67 |
| Fire | 1,878,816.23 | 0.00 | 0.00 | 1,878,816.23 |
| Public works | 1,260,372.17 | 0.00 | 0.00 | 1,260,372.17 |
| Sanitation | 0.00 | 0.00 | 934,645.20 | 934,645.20 |
| Planning and zoning | 313,019.38 | 0.00 | 0.00 | 313,019.38 |
| Parks and recreation | 0.00 | 0.00 | 1,770,499.17 | 1,770,499.17 |
| Education: | | | | |
| Administration | 0.00 | 1,813,567.66 | 0.00 | 1,813,567.66 |
| Regular education | 0.00 | 6,586,513.68 | 0.00 | 6,586,513.68 |
| Special education | 0.00 | 1,335,736.68 | 0.00 | 1,335,736.68 |
| Attendance | 0.00 | 96,290.73 | 0.00 | 96,290.73 |
| Health services and other student support | 0.00 | 273,333.60 | 0.00 | 273,333.60 |
| Instructional staff | 0.00 | 483,516.68 | 0.00 | 483,516.68 |
| Plant operations | 0.00 | 789,386.15 | 0.00 | 789,386.15 |
| Plant maintenance | 0.00 | 532,492.68 | 0.00 | 532,492.68 |
| Transportation | 0.00 | 34,613.96 | 0.00 | 34,613.96 |
| Community services | 0.00 | 227,708.50 | 0.00 | 227,708.50 |
| Program costs | 0.00 | 0.00 | 2,084,099.97 | 2,084,099.97 |
| General government | 466,122.18 | 0.00 | 0.00 | 466,122.18 |
| Contributions | 132,610.81 | 0.00 | 0.00 | 132,610.81 |
| Debt service | 0.00 | 0.00 | 1,615,667.06 | 1,615,667.06 |
| Capital outlay | 748,570.86 | 0.00 | 497,997.25 | 1,246,568.11 |
| Total Expenditures | <u>8,121,577.93</u> | <u>12,173,160.32</u> | <u>6,902,908.65</u> | <u>27,197,646.90</u> |
| EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES | <u>3,847,438.20</u> | <u>(1,105,593.88)</u> | <u>(2,085,063.56)</u> | <u>656,780.76</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers from other funds | 0.00 | 1,711,683.20 | 2,230,191.06 | 3,941,874.26 |
| Operating transfers to other funds | (3,780,177.80) | 0.00 | (161,696.46) | (3,941,874.26) |
| Total Other Financing Sources (Uses) | <u>(3,780,177.80)</u> | <u>1,711,683.20</u> | <u>2,068,494.60</u> | <u>0.00</u> |
| Net change in Fund Balance | 67,260.40 | 606,089.32 | (16,568.96) | 656,780.76 |
| Fund Balance, Beginning of Year | <u>2,867,945.64</u> | <u>4,073,902.48</u> | <u>3,060,994.11</u> | <u>10,002,842.23</u> |
| Fund Balances, end of year | <u>\$ 2,935,206.04</u> | <u>\$ 4,679,991.80</u> | <u>\$ 3,044,425.15</u> | <u>\$ 10,659,622.99</u> |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

| | |
|--|----------------------|
| Amounts reported for fund balances - total governmental funds | \$ 656,780.76 |
| <p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The amount by which capital outlays are reported in the Governmental Funds is more than depreciation for the year.</p> | |
| Capital outlays: \$1,327,009.56 | |
| Depreciation: (\$1,541,413.55) | (214,403.99) |
| <p>Governmental funds report the effects of bond issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized for governmental activities.</p> | |
| Amortization of bond related costs | (7,682.81) |
| <p>Gains and losses are not presented in this financial statement because they do not provide or use current financial resources, but they are presented in the statement of activities.</p> | |
| | (63,245.79) |
| <p>Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government - wide statement of changes in net assets compensated absences are expensed as they are accrued.</p> | |
| Change in the compensated absences liability | 56,420.24 |
| <p>OPEB benefits cannot be used until the employee is no longer employed by the City, therefore they are not paid in cash until a date that may extend well into the future.</p> | |
| Change in OPEB obligations | (147,153.00) |
| <p>The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p> | |
| Note principal retirement: \$546,736.13 | <u>546,736.13</u> |
| Change in net assets of governmental activities | <u>\$ 827,451.54</u> |

The accompanying notes are an integral part of this statement.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012**

| | Water and Sewer Fund | Wastewater Treatment Plant Fund | Totals |
|--|----------------------------|---------------------------------------|-------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash | \$ 3,609,475.72 | \$ 0.00 | \$ 3,609,475.72 |
| Accounts receivable, net | 809,567.61 | 0.00 | 809,567.61 |
| Inventory of supplies | 93,376.73 | 0.00 | 93,376.73 |
| Due from other funds | 0.00 | 0.00 | 0.00 |
| Total Current Assets | <u>4,512,420.06</u> | <u>0.00</u> | <u>4,512,420.06</u> |
| Noncurrent Assets: | | | |
| Property, plant and equipment, net of accumulated depreciation | 35,122,678.37 | 0.00 | 35,122,678.37 |
| Receivable from DRUC | 10,455,000.00 | 0.00 | 10,455,000.00 |
| Total Noncurrent Assets | <u>45,577,678.37</u> | <u>0.00</u> | <u>45,577,678.37</u> |
| TOTAL ASSETS | <u>50,090,098.43</u> | <u>0.00</u> | <u>50,090,098.43</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 169,591.50 | 0.00 | 169,591.50 |
| Accrued expenses | 384,560.78 | 0.00 | 384,560.78 |
| Due to other funds | 76,753.17 | 0.00 | 76,753.17 |
| Customer deposits | 277,076.53 | 0.00 | 277,076.53 |
| Deferred revenues | 471,500.00 | 0.00 | 471,500.00 |
| Current maturities of long-term debt | 474,170.05 | 0.00 | 474,170.05 |
| Total Current Liabilities | <u>1,853,652.03</u> | <u>0.00</u> | <u>1,853,652.03</u> |
| Noncurrent Liabilities: | | | |
| Long-term debt, net of current maturities | 28,469,406.17 | 0.00 | 28,469,406.17 |
| Total Noncurrent Assets | <u>28,469,406.17</u> | <u>0.00</u> | <u>28,469,406.17</u> |
| TOTAL LIABILITIES | <u>30,323,058.20</u> | <u>0.00</u> | <u>30,323,058.20</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 16,634,102.15 | 0.00 | 16,634,102.15 |
| Unrestricted | 3,132,938.08 | 0.00 | 3,132,938.08 |
| TOTAL NET ASSETS | <u>\$ 19,767,040.23</u> | <u>\$ 0.00</u> | <u>\$ 19,767,040.23</u> |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2012

| | Water and Sewer Fund | Wastewater Treatment Plant Fund | Totals |
|--|----------------------------|---------------------------------------|-------------------------|
| Operating Revenues: | | | |
| Metered water sales | \$ 3,020,895.73 | \$ 0.00 | \$ 3,020,895.73 |
| Sewer service charges | 1,947,815.02 | 0.00 | 1,947,815.02 |
| Other revenues from operations | 317,464.02 | 0.00 | 317,464.02 |
| Total Operating Revenues: | <u>5,286,174.77</u> | <u>0.00</u> | <u>5,286,174.77</u> |
| Operating Expenses: | | | |
| Water Distribution: | | | |
| Water purchased | 1,035,670.80 | 0.00 | 1,035,670.80 |
| Utilities | 70,430.09 | 0.00 | 70,430.09 |
| Shop and Maintenance: | | | |
| Salaries | 871,676.12 | 0.00 | 871,676.12 |
| Employee benefits | 407,591.79 | 0.00 | 407,591.79 |
| Utilities | 7,237.63 | 0.00 | 7,237.63 |
| Repair and maintenance | 201,248.20 | 0.00 | 201,248.20 |
| Operating supplies | 71,967.50 | 0.00 | 71,967.50 |
| Administration and General: | | | |
| Salaries | 127,180.67 | 0.00 | 127,180.67 |
| Employee benefits | 40,611.95 | 0.00 | 40,611.95 |
| Services | 60,329.12 | 0.00 | 60,329.12 |
| Supplies | 19,384.27 | 0.00 | 19,384.27 |
| Insurance | 38,781.00 | 0.00 | 38,781.00 |
| Other | 14,332.45 | 0.00 | 14,332.45 |
| Sewer Treatment: | | | |
| Salaries | 126,275.54 | 0.00 | 126,275.54 |
| Employee benefits | 86,012.71 | 0.00 | 86,012.71 |
| Services | 329,025.61 | 0.00 | 329,025.61 |
| Supplies | 41,334.28 | 0.00 | 41,334.28 |
| Mechanical Maintenance: | | | |
| Salaries | 75,696.87 | 0.00 | 75,696.87 |
| Employee benefits | 36,945.88 | 0.00 | 36,945.88 |
| Supplies | 4,237.98 | 0.00 | 4,237.98 |
| Depreciation and Amortization | 1,112,472.67 | 0.00 | 1,112,472.67 |
| Total Operating Expenses | <u>4,778,443.13</u> | <u>0.00</u> | <u>4,778,443.13</u> |
| Operating Income | <u>507,731.64</u> | <u>0.00</u> | <u>507,731.64</u> |
| Nonoperating Revenues (Expenses): | | | |
| Interest income | 13,976.42 | 0.00 | 13,976.42 |
| Grant proceeds | 85,465.55 | 598,226.48 | 683,692.03 |
| Other income | 36,654.00 | 0.00 | 36,654.00 |
| Transfers from other funds | 4,808,098.56 | 0.00 | 4,808,098.56 |
| Transfers to other funds | 0.00 | (4,808,098.56) | (4,808,098.56) |
| Interest expense | (455,047.70) | (184,730.34) | (639,778.04) |
| Total Nonoperating Revenues (Expenses) | <u>4,489,146.83</u> | <u>(4,394,602.42)</u> | <u>94,544.41</u> |
| Income before capital contributions | 4,996,878.47 | (4,394,602.42) | 602,276.05 |
| Capital contributions | <u>14,069.38</u> | <u>0.00</u> | <u>14,069.38</u> |
| Change in Fund Net Assets | 5,010,947.85 | (4,394,602.42) | 616,345.43 |
| Net Assets, Beginning of Year | 14,756,092.38 | 4,394,602.42 | 19,150,694.80 |
| Net Assets, End of Year | <u>\$ 19,767,040.23</u> | <u>\$ 0.00</u> | <u>\$ 19,767,040.23</u> |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

| | Water and Sewer Fund | Wastewater Treatment Plant Fund | Totals |
|--|----------------------------|---------------------------------------|------------------------|
| <u>Cash Flows from Operating Activities</u> | | | |
| Cash received from customers | \$ 5,398,129.36 | \$ 0.00 | \$ 5,398,129.36 |
| Cash paid to employees for services | (1,517,506.42) | 0.00 | (1,517,506.42) |
| Cash paid to suppliers of goods and services | (2,717,914.93) | 0.00 | (2,717,914.93) |
| Other receipts (payments) | 354,372.17 | 0.00 | 354,372.17 |
| Net Cash provided by Operating Activities | <u>1,517,080.18</u> | <u>0.00</u> | <u>1,517,080.18</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | | |
| Acquisitions of capital assets | (64,642.79) | (866,645.29) | (931,288.08) |
| Proceeds from the issuance of capital debt | 0.00 | 396,742.34 | 396,742.34 |
| Capital contributions | 0.00 | 175,661.20 | 175,661.20 |
| Grant proceeds | | 422,565.28 | |
| Interest paid on capital debt | (441,512.73) | (184,730.34) | (626,243.07) |
| Principal paid on capital debt | (462,492.88) | (511,853.50) | (974,346.38) |
| Net Cash (used)/provided by Capital and Related Financing Activities | <u>(968,648.40)</u> | <u>(568,260.31)</u> | <u>(1,536,908.71)</u> |
| <u>Cash Flows from Investing Activities</u> | | | |
| Interest received on investments | 13,976.42 | 0.00 | 13,976.42 |
| Net Cash provided by Investing Activities | <u>13,976.42</u> | <u>0.00</u> | <u>13,976.42</u> |
| Net Increase in Cash | 562,408.20 | (568,260.31) | (5,852.11) |
| Cash, Beginning of Year | 3,047,067.52 | 568,260.31 | 3,615,327.83 |
| Cash, End of Year | <u>\$ 3,609,475.72</u> | <u>\$ 0.00</u> | <u>\$ 3,609,475.72</u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by Operations</u> | | | |
| Operating income | \$ 507,731.64 | \$ 0.00 | \$ 507,731.64 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 1,112,472.67 | 0.00 | 1,112,472.67 |
| (Increase) decrease in: | | | |
| Accounts receivable | 33,034.20 | 0.00 | 33,034.20 |
| Inventory | (12,804.25) | 0.00 | (12,804.25) |
| Increase (decrease) in: | | | |
| Accounts payable | (123,354.08) | 0.00 | (123,354.08) |
| Net Cash Provided By Operating Activities | <u>\$ 1,517,080.18</u> | <u>\$ 0.00</u> | <u>\$ 1,517,080.18</u> |

The accompanying notes are an integral part of this statement.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2012**

| | Budgetary Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|-------------------|-----------------|-----------------|-------------------|---|
| | Original | Amended | Final | | |
| Revenue | | | | | |
| Taxes: | | | | | |
| Real and personal property taxes | \$ 4,634,913.00 | \$ 4,669,913.00 | \$ 4,669,913.00 | \$ 4,596,075.05 | \$ (73,837.95) |
| Penalty and interest | 55,000.00 | 57,000.00 | 57,000.00 | 61,337.26 | 4,337.26 |
| Local option sales tax | 3,550,000.00 | 3,625,000.00 | 3,625,000.00 | 3,734,505.51 | 109,505.51 |
| Beer tax | 450,000.00 | 470,000.00 | 470,000.00 | 487,787.22 | 17,787.22 |
| Wholesale liquor tax | 200,000.00 | 200,000.00 | 200,000.00 | 199,833.21 | (166.79) |
| Business tax | 260,000.00 | 250,000.00 | 250,000.00 | 292,353.15 | 42,353.15 |
| Motel tax | 305,000.00 | 355,000.00 | 355,000.00 | 301,049.93 | (53,950.07) |
| Cable TV | 107,000.00 | 111,000.00 | 111,000.00 | 109,430.32 | (1,569.68) |
| Total Taxes | 9,561,913.00 | 9,737,913.00 | 9,737,913.00 | 9,782,371.65 | 44,458.65 |
| Licenses and Permits: | | | | | |
| Beer and liquor permits | 17,000.00 | 17,000.00 | 17,000.00 | 17,471.72 | 471.72 |
| Building permits | 40,000.00 | 40,000.00 | 40,000.00 | 45,510.00 | 5,510.00 |
| Total Licenses and Permits | 57,000.00 | 57,000.00 | 57,000.00 | 62,981.72 | 5,981.72 |
| Fines and Fees: | | | | | |
| Fees and costs | 222,000.00 | 242,000.00 | 242,000.00 | 198,247.60 | (43,752.40) |
| Total Fines and Fees | 222,000.00 | 242,000.00 | 242,000.00 | 198,247.60 | (43,752.40) |
| Charges for Services: | | | | | |
| Other | 26,000.00 | 26,000.00 | 26,000.00 | 13,469.69 | (12,530.31) |
| Total Charge for Services | 26,000.00 | 26,000.00 | 26,000.00 | 13,469.69 | (12,530.31) |
| Intergovernmental: | | | | | |
| Sales tax | 625,000.00 | 675,000.00 | 675,000.00 | 685,897.96 | 10,897.96 |
| State beer tax | 5,000.00 | 5,000.00 | 5,000.00 | 4,958.88 | (41.12) |
| State excise tax | 35,000.00 | 50,000.00 | 50,000.00 | 50,285.23 | 285.23 |
| State income tax | 45,000.00 | 45,000.00 | 45,000.00 | 52,613.26 | 7,613.26 |
| Mixed drink tax | 35,000.00 | 40,000.00 | 40,000.00 | 42,914.77 | 2,914.77 |
| Streets and transportation | 20,000.00 | 20,000.00 | 20,000.00 | 20,733.73 | 733.73 |
| Street aid revenue | 200,000.00 | 200,000.00 | 200,000.00 | 179,426.86 | (20,573.14) |
| TVA payments in lieu of tax | 110,000.00 | 116,500.00 | 116,500.00 | 116,744.76 | 244.76 |
| Manchester Housing Authority | 8,600.00 | 9,600.00 | 9,600.00 | 9,487.00 | (113.00) |
| Allocation - state & local | 83,000.00 | 83,000.00 | 83,000.00 | 83,298.19 | 298.19 |
| Federal and state grants | 146,000.00 | 146,000.00 | 146,000.00 | 131,889.45 | (14,110.55) |
| State 3% gas tax | 60,000.00 | 70,000.00 | 70,000.00 | 82,463.66 | 12,463.66 |
| Coffee County Industrial Park | 57,600.00 | 57,600.00 | 57,600.00 | 57,600.00 | 0.00 |
| Other intergovernmental | 179,025.00 | 187,025.00 | 187,025.00 | 36,600.00 | (150,425.00) |
| Coffee County appropriation to Fire Dept. | 10,000.00 | 10,000.00 | 10,000.00 | 10,000.00 | 0.00 |
| Total Intergovernmental | 1,619,225.00 | 1,714,725.00 | 1,714,725.00 | 1,564,913.75 | (149,811.25) |
| Miscellaneous income | 88,050.00 | 181,182.00 | 181,182.00 | 347,031.72 | 165,849.72 |
| Total Miscellaneous | 88,050.00 | 181,182.00 | 181,182.00 | 347,031.72 | 165,849.72 |
| Total Revenues | 11,574,188.00 | 11,958,820.00 | 11,958,820.00 | 11,969,016.13 | 10,196.13 |

(continued)

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND (continued)
For the Year Ended June 30, 2012**

| | Budgetary Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--------------------------------|-------------------|--------------|--------------|-------------------|---|
| | Original | Amended | Final | | |
| Expenditures | | | | | |
| City Judge: | | | | | |
| Retainer | 9,500.00 | 9,500.00 | 9,500.00 | 9,500.04 | (0.04) |
| Total City Judge | 9,500.00 | 9,500.00 | 9,500.00 | 9,500.04 | (0.04) |
| Mayor's Office: | | | | | |
| Personnel costs | 263,817.00 | 257,917.00 | 257,917.00 | 254,842.66 | 3,074.34 |
| Contractual services | 78,500.00 | 86,500.00 | 86,500.00 | 89,321.45 | (2,821.45) |
| Supplies | 14,800.00 | 12,300.00 | 12,300.00 | 7,122.53 | 5,177.47 |
| Total | 357,117.00 | 356,717.00 | 356,717.00 | 351,286.64 | 5,430.36 |
| Capital Outlay | 3,000.00 | 3,000.00 | 3,000.00 | 5,943.39 | (2,943.39) |
| Total Mayor's Office | 360,117.00 | 359,717.00 | 359,717.00 | 357,230.03 | 2,486.97 |
| Finance Department: | | | | | |
| Personnel costs | 322,992.00 | 311,992.00 | 311,992.00 | 314,294.00 | (2,302.00) |
| Contractual services | 28,434.00 | 28,749.00 | 28,749.00 | 30,100.28 | (1,351.28) |
| Supplies | 13,250.00 | 15,685.00 | 15,685.00 | 14,563.04 | 1,121.96 |
| Total | 364,676.00 | 356,426.00 | 356,426.00 | 358,957.32 | (2,531.32) |
| Capital Outlay | 0.00 | 2,500.00 | 2,500.00 | 2,723.24 | (223.24) |
| Total Finance Department | 364,676.00 | 358,926.00 | 358,926.00 | 361,680.56 | (2,754.56) |
| Public Safety | | | | | |
| Police Department: | | | | | |
| Personnel costs | 2,404,563.00 | 2,404,563.00 | 2,404,563.00 | 2,311,685.92 | 92,877.08 |
| Contractual services | 167,733.00 | 198,733.00 | 198,733.00 | 202,520.15 | (3,787.15) |
| Supplies | 56,000.00 | 60,962.00 | 60,962.00 | 71,617.76 | (10,655.76) |
| Total | 2,628,296.00 | 2,664,258.00 | 2,664,258.00 | 2,585,823.83 | 78,434.17 |
| Capital Outlay | 53,000.00 | 137,775.00 | 137,775.00 | 140,277.62 | (2,502.62) |
| Total Police Department | 2,681,296.00 | 2,802,033.00 | 2,802,033.00 | 2,726,101.45 | 75,931.55 |
| Fire Department: | | | | | |
| Personnel costs | 1,799,481.00 | 1,813,831.00 | 1,813,831.00 | 1,780,818.81 | 33,012.19 |
| Contractual services | 77,500.00 | 85,800.00 | 85,800.00 | 69,033.78 | 16,766.22 |
| Supplies | 24,445.00 | 25,445.00 | 25,445.00 | 28,963.64 | (3,518.64) |
| Total | 1,901,426.00 | 1,925,076.00 | 1,925,076.00 | 1,878,816.23 | 46,259.77 |
| Capital Outlay | 0.00 | 0.00 | 0.00 | 20,000.00 | (20,000.00) |
| Total Fire Department | 1,901,426.00 | 1,925,076.00 | 1,925,076.00 | 1,898,816.23 | 26,259.77 |
| Total Public Safety | 4,582,722.00 | 4,727,109.00 | 4,727,109.00 | 4,624,917.68 | 102,191.32 |
| Public Works: | | | | | |
| Personnel costs | 861,082.00 | 869,082.00 | 869,082.00 | 883,202.50 | (14,120.50) |
| Contractual services | 107,167.00 | 108,067.00 | 108,067.00 | 75,134.02 | 32,932.98 |
| Supplies | 89,309.00 | 93,809.00 | 93,809.00 | 88,836.24 | 4,972.76 |
| State Street Aid Expenditures: | | | | | |
| Street lighting | 190,000.00 | 190,000.00 | 190,000.00 | 181,185.29 | 8,814.71 |
| Street paving | 295,600.00 | 279,600.00 | 279,600.00 | 20,881.50 | 258,718.50 |
| Total | 1,543,158.00 | 1,540,558.00 | 1,540,558.00 | 1,249,239.55 | 291,318.45 |
| Capital Outlay | 9,500.00 | 226,750.00 | 226,750.00 | 585,848.55 | (359,098.55) |
| Total Highway and Streets | 1,552,658.00 | 1,767,308.00 | 1,767,308.00 | 1,835,088.10 | (67,780.10) |
| Planning and Zoning: | | | | | |
| Personnel costs | 295,457.00 | 295,657.00 | 295,657.00 | 292,551.89 | 3,105.11 |
| Contractual services | 7,500.00 | 7,500.00 | 7,500.00 | 6,656.98 | 843.02 |
| Supplies | 14,850.00 | 16,230.00 | 16,230.00 | 13,010.51 | 3,219.49 |
| Total | 317,807.00 | 319,387.00 | 319,387.00 | 312,219.38 | 7,167.62 |
| Capital Outlay | 0.00 | 8,800.00 | 8,800.00 | 8,800.00 | 0.00 |
| Total Planning and Zoning | 317,807.00 | 328,187.00 | 328,187.00 | 321,019.38 | 7,167.62 |

(continued)

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND (continued)
For the Year Ended June 30, 2012**

| | Budgetary Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-------------------|-----------------|-----------------|-------------------|---|
| | Original | Amended | Final | | |
| Expenditures, Continued: | | | | | |
| General Government: | | | | | |
| Personnel costs | 700.00 | 700.00 | 700.00 | 558.71 | 141.29 |
| Contractual services | 164,165.00 | 164,865.00 | 164,865.00 | 169,881.85 | (5,016.85) |
| Supplies | 7,400.00 | 7,400.00 | 7,400.00 | 32,595.70 | (25,195.70) |
| Insurance | 272,615.00 | 282,115.00 | 282,115.00 | 276,495.07 | 5,619.93 |
| Total Current | 444,880.00 | 455,080.00 | 455,080.00 | 479,531.33 | (24,451.33) |
| Capital Outlay | 152,825.00 | 155,325.00 | 155,325.00 | 0.00 | 155,325.00 |
| Total General Government | 597,705.00 | 610,405.00 | 610,405.00 | 479,531.33 | 130,873.67 |
| Contributions: | | | | | |
| Current: | | | | | |
| Coffee County Conference Center | 80,000.00 | 80,000.00 | 80,000.00 | 90,162.81 | (10,162.81) |
| Coffee County Child Care | 2,500.00 | 2,500.00 | 2,500.00 | 2,500.00 | 0.00 |
| Coffee County Children's Advocacy Center | 6,500.00 | 6,500.00 | 6,500.00 | 6,500.00 | 0.00 |
| Library | 11,000.00 | 11,000.00 | 11,000.00 | 11,000.00 | 0.00 |
| Coffee County Senior Center | 2,500.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Manchester Senior Center | 2,500.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| South Central TN Development District | 2,059.00 | 2,121.00 | 2,121.00 | 2,121.00 | 0.00 |
| Adult Education | 5,000.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| South Central Human Resources | 1,327.00 | 1,327.00 | 1,327.00 | 1,327.00 | 0.00 |
| Keep Coffee County Beautiful | 1,000.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Tennessee Backroads Heritage | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 0.00 |
| Leadership Class | 250.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Chamber of Commerce | 7,000.00 | 7,000.00 | 7,000.00 | 7,000.00 | 0.00 |
| Vocational Training Center | 11,000.00 | 11,000.00 | 11,000.00 | 11,000.00 | 0.00 |
| Total Contributions | 133,636.00 | 122,448.00 | 122,448.00 | 132,610.81 | (10,162.81) |
| Total Expenditures | 7,918,821.00 | 8,283,600.00 | 8,283,600.00 | 8,121,577.93 | 162,022.07 |
| Excess of revenues over expenditures | 3,655,367.00 | 3,675,220.00 | 3,675,220.00 | 3,847,438.20 | 172,218.20 |
| Other Financing Sources (Uses): | | | | | |
| Transfer to General Purpose School Fund | (1,678,467.00) | (1,678,467.00) | (1,678,467.00) | (1,686,327.00) | 7,860.00 |
| Transfer to Recreation Fund | (362,545.00) | (491,524.00) | (611,524.00) | (611,524.00) | 0.00 |
| Transfer to Sanitation Fund | 0.00 | (29,176.00) | (29,176.00) | 0.00 | 29,176.00 |
| Transfer to Community Service | (17,000.00) | (17,000.00) | (17,000.00) | (3,000.00) | 14,000.00 |
| Transfer to Police Grant | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Transfer from Other Funds | 2,500.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Transfer to Debt Service Fund | (1,599,855.00) | (1,457,700.00) | (1,457,700.00) | (1,479,326.80) | (21,626.80) |
| Total Financing (Uses) | (3,655,367.00) | (3,673,867.00) | (3,793,867.00) | (3,780,177.80) | 21,549.20 |
| Excess (deficiency) of revenues over expenditures and other financing sources (uses) | 0.00 | 1,353.00 | (118,647.00) | 67,260.40 | 185,907.40 |
| Fund Balance, Beginning of Year | 2,867,945.64 | 2,867,945.64 | 2,867,945.64 | 2,867,945.64 | 0.00 |
| Fund Balance, End of Year | \$ 2,867,945.64 | \$ 2,869,298.64 | \$ 2,749,298.64 | \$ 2,935,206.04 | \$ 185,907.40 |

The accompanying notes are an integral part of this statement.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------------|-----------------|-------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Taxes: | | | | | |
| Property tax | \$ 2,099,500.00 | \$ 2,407,000.00 | \$ 2,407,000.00 | \$ 2,518,564.86 | \$ 111,564.86 |
| Local option sales tax | 1,375,000.00 | 1,425,000.00 | 1,425,000.00 | 1,572,411.68 | 147,411.68 |
| Other taxes | 4,700.00 | 4,700.00 | 4,700.00 | 7,443.32 | 2,743.32 |
| Total Taxes | 3,479,200.00 | 3,836,700.00 | 3,836,700.00 | 4,098,419.86 | 261,719.86 |
| Intergovernmental | | | | | |
| Federal & State Education grants | 6,289,613.00 | 6,359,570.00 | 6,359,570.00 | 6,736,221.05 | 376,651.05 |
| Total Intergovernmental | 6,289,613.00 | 6,359,570.00 | 6,359,570.00 | 6,736,221.05 | 376,651.05 |
| Charges for Services: | | | | | |
| Tuition and other | 171,000.00 | 171,000.00 | 171,000.00 | 190,479.42 | 19,479.42 |
| Miscellaneous: | | | | | |
| Other income | 26,450.00 | 26,095.00 | 26,095.00 | 42,446.11 | 16,351.11 |
| Total Revenues | 9,966,263.00 | 10,393,365.00 | 10,393,365.00 | 11,067,566.44 | 674,201.44 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Education: | | | | | |
| Administration | 2,229,911.00 | 2,248,746.00 | 2,248,746.00 | 2,195,388.96 | 53,357.04 |
| Regular education | 6,373,914.00 | 6,449,714.00 | 6,449,714.00 | 6,483,439.98 | (33,725.98) |
| Special education | 1,332,698.00 | 1,299,180.00 | 1,299,180.00 | 1,278,620.88 | 20,559.12 |
| Attendance | 114,104.00 | 103,679.00 | 103,679.00 | 96,290.73 | 7,388.27 |
| Health services and other students support | 113,505.00 | 113,945.00 | 113,945.00 | 114,144.74 | (199.74) |
| Instructional staff | 515,453.00 | 521,087.00 | 521,087.00 | 498,071.74 | 23,015.26 |
| Plant operations | 858,425.00 | 856,175.00 | 856,175.00 | 789,386.15 | 66,788.85 |
| Plant maintenance | 446,700.00 | 452,200.00 | 452,200.00 | 399,278.48 | 52,921.52 |
| Transportation | 34,065.00 | 34,065.00 | 34,065.00 | 34,613.96 | (548.96) |
| Capital outlay | 0.00 | 85,000.00 | 85,000.00 | 56,216.20 | 28,783.80 |
| Community services | 236,177.00 | 236,177.00 | 236,177.00 | 227,708.50 | 8,468.50 |
| Total Expenditures | 12,254,952.00 | 12,399,968.00 | 12,399,968.00 | 12,173,160.32 | 226,807.68 |
| (Deficiency) of revenues over expenditures | (2,288,689.00) | (2,006,603.00) | (2,006,603.00) | (1,105,593.88) | 901,009.12 |
| Other Sources (Uses) of Resources: | | | | | |
| Operating transfers from General Fund | 1,678,467.00 | 1,678,467.00 | 1,678,467.00 | 1,686,327.00 | (7,860.00) |
| Operating transfers from School Capital Projects | 2,500.00 | 2,500.00 | 2,500.00 | 25,356.20 | 22,856.20 |
| Total Other Sources of Resources | 1,680,967.00 | 1,680,967.00 | 1,680,967.00 | 1,711,683.20 | 14,996.20 |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | (607,722.00) | (325,636.00) | (325,636.00) | 606,089.32 | 886,012.92 |
| Fund Balance, Beginning of Year | 4,073,902.48 | 4,073,902.48 | 4,073,902.48 | 4,073,902.48 | 0.00 |
| Fund Balance, End of Year | \$ 3,466,180.48 | \$ 3,748,266.48 | \$ 3,748,266.48 | \$ 4,679,991.80 | \$ 886,012.92 |

The accompanying notes are an integral part of this statement.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manchester, Tennessee was incorporated in 1905. The City operates under a Mayor-Alderman form of government and provides the following services as authorized by its charter: public safety (police and fire protection), public school system, highways and streets, health and social services, recreation, public improvements, planning and zoning, general administrative services, and water and sewer services.

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

Reporting Entity

The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, to define the reporting entity. The financial statements include all operations over which the City is financially accountable. The City has not identified any entities which would be component units.

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations do not extend beyond making the appointment.

The following organizations are related organizations which have not been included in the reporting entity.

Manchester Housing Authority - The Board and Director of the Authority are appointed by the Mayor and Aldermen, but the City does not provide funding, has no obligation for the debt issued by the Authority, and cannot impose its will upon the operations of the Authority.

Manchester Arts Commission - The Board and Director of the Commission are appointed by the Mayor and Aldermen. The Arts Commission is a Tennessee Chartered Non Profit Corporation. Further, the City has no obligation for any debt issued by the Commission, nor can it impose its will upon the operations of the Commission.

Joint Venture

The City, in conjunction with the City of Tullahoma, appoints the Board of the Duck River Utility Commission (DRUC), which operates a water treatment plant providing the citizens of the two cities with water. Each city elects three of the six member board. Neither city has any other responsibility for the Commission. The City has no equity interest in the net resources of the Commission. Assets of the Utility are pledged to the cities to secure indebtedness to the State of Tennessee which is being repaid from earnings of the Utility. The Commission reported net assets of \$2,599,982 and \$2,641,232 in 2012 and 2011, respectively. Complete financial statements of the Utility are available at the Finance Director's office at City Hall.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the City's activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* 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 and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*. The effect of interfund activity has been removed from the government-wide financial statements.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due in the governmental fund financial statements.

Property taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The General Purpose School Fund is used to account for the primary activities of the schools of the City of Manchester.

The government reports the following major proprietary funds:

The Water & Sewer Fund accounts for the water and wastewater services provided to customers of the system.

The Wastewater Treatment Plant Fund accounts for the activity involving the construction of the wastewater treatment plant. The City set up this account to further ensure compliance with ARRA. Upon completion, this fund will be closed into the Water & Sewer Fund.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for water and sewer services. Operating expenses for the enterprise fund include the cost of water and sewer services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

| | |
|---------------------------------|-------------|
| Infrastructure (roads, bridges) | 50 years |
| Buildings | 25-50 years |
| Distribution systems | 10-50 years |
| Equipment | 3-10 years |
| Furniture and fixtures | 3-10 years |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

As set forth in the City Charter, the City Council adopts an annual budget of the General Fund, Proprietary Funds, and Special Revenue Funds. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Proprietary Funds are adopted under a basis consistent with GAAP, except that certain capital expenses and non-operating income and expense items are not considered. The City Recorder is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter the total expenditures/expenses must be approved by the City Council.

The amended budgets for the Governmental Funds are represented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual. All annual appropriations lapse at fiscal year-end.

Bonds Premiums/Discounts/Issuance Costs

In Governmental Fund types, bond discounts and issuance costs are recognized in the current period. Bond premiums, discounts, and issuance costs for Proprietary Fund types are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts are offset against the debt to which they are related. Issuance costs are recorded as deferred charges while bond premiums are recorded as an addition to the face amount of the bond.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications. These classifications are comprised of a hierarchy which is established primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified certain inventories and prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified certain education monies as being restricted because their use is restricted by State Statute for education expenditures.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Mayor and Board of Aldermen. These amounts cannot be used for any other purpose unless the Mayor and Board of Aldermen removes or changes the specified use by taking the same type of action (ordinance or resolution) that as employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2012.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Mayor and Board or Aldermen or through the Mayor and Board or Aldermen delegating this responsibility to the City Finance Director through the budgetary process. The City has classified monies relating to ESP and We Care as being assigned.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification (continued)

Unassigned: This classification includes the residual fund balance for the General Fund and the Sanitation Fund.

The City would typically use Restricted fund balance first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

NOTE 2 – CASH AND CASH EQUIVALENTS

The City is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2012, the City invested in short-term certificates of deposit, savings accounts and other money market accounts.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City’s deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City’s policy requires that deposits be secured and collateralized by the institutions at 105 percent of the value of the deposits placed in the institutions less the amount protected by federal depository. At June 30, 2012, deposits were not exposed to custodial risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City’s policy provides that to the extent practicable, investments are matched with anticipated cash flows.

NOTE 3 – RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUES

Significant business-type receivables include amounts due from customers primarily for utility services. These receivables are due within thirty days. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Customer utility accounts receivable and customer accounts receivable at the recreation center are presented net of an allowance for uncollectible accounts.

Delinquent taxes receivable have been included in the combined balance sheet with offsetting deferred revenue to reflect amounts which were not available at June 30, 2012. Amounts, which were available at June 30, 2012, have been recorded as revenue.

Accounts receivable and the related allowance for doubtful accounts at June 30, 2012 are as follows:

| <u>Fund Type</u> | <u>Receivables</u> | <u>Allowance for Doubtful Accounts</u> | <u>Net</u> |
|--------------------|------------------------|--|------------------------|
| Governmental Funds | \$ 7,386,293.59 | \$ (25,000.00) | \$ 7,361,293.59 |
| Proprietary Funds | <u>831,567.61</u> | <u>(22,000.00)</u> | <u>809,567.61</u> |
| Total | <u>\$ 8,217,861.20</u> | <u>\$ (47,000.00)</u> | <u>\$ 8,170,861.20</u> |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 - INVENTORIES

Inventory of the Water and Sewer Funds, principally materials, supplies, and replacement parts, is valued at the lower of cost, first-in, first-out, or market.

Inventory of the School Cafeteria fund consists of food and supplies and is valued at cost and recorded using the purchase and consumption methods for fund and governmental activities statement presentation, respectively.

Inventory of the General fund, principally materials and gasoline, is valued at cost and recorded as an expenditure at the time individual inventory items are purchased.

NOTE 5 – CAPITAL ASSETS

Governmental Activities

A summary of Governmental Funds property, plant and equipment as of June 30, 2012 is as follows:

| | Balance July 1, 2011, <u>As Restated</u> | <u>Transfers</u> | <u>Additions</u> | Adjustments/ <u>Disposals</u> | Balance <u>June 30, 2012</u> |
|---------------------------------------|--|----------------------|------------------------|----------------------------------|---------------------------------|
| Nondepreciable capital assets: | | | | | |
| Land | \$ 4,680,442.51 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 4,680,442.51 |
| Construction in Progress | <u>23,890.00</u> | <u>0.00</u> | <u>24,225.25</u> | <u>(6,250.00)</u> | <u>41,865.25</u> |
| | <u>4,704,332.51</u> | <u>0.00</u> | <u>24,225.25</u> | <u>(6,250.00)</u> | <u>4,722,307.76</u> |
| Depreciable capital assets: | | | | | |
| Building and improvements | 27,427,653.21 | 0.00 | 44,960.00 | 0.00 | 27,472,613.21 |
| Infrastructure | 21,052,233.09 | 1,542,748.60 | 820,037.68 | 0.00 | 23,415,019.37 |
| Equipment | 4,665,842.46 | (2,058,311.58) | 124,915.85 | (189,890.00) | 2,542,556.73 |
| Vehicles | <u>2,115,981.24</u> | <u>853,028.56</u> | <u>306,595.95</u> | <u>(404,588.96)</u> | <u>2,871,016.79</u> |
| | <u>55,261,710.00</u> | <u>337,465.58</u> | <u>1,296,509.48</u> | <u>(594,478.96)</u> | <u>56,301,206.10</u> |
| Total capital assets | <u>59,966,042.51</u> | <u>337,465.58</u> | <u>1,320,734.73</u> | <u>(600,728.96)</u> | <u>61,023,513.86</u> |
| Accumulated depreciation: | | | | | |
| Building and improvements | (8,969,653.44) | 0.00 | (786,225.94) | 0.00 | (9,755,879.38) |
| Infrastructure | (15,334,656.79) | (1,282,680.92) | (333,929.17) | 0.00 | (16,951,266.88) |
| Equipment | (3,343,450.72) | 1,798,082.25 | (184,508.29) | 60,617.80 | (1,669,258.96) |
| Vehicles | <u>(1,549,272.06)</u> | <u>(468,803.25)</u> | <u>(549,115.05)</u> | <u>418,273.11</u> | <u>(2,148,917.25)</u> |
| Total accumulated depreciation | <u>(29,197,033.01)</u> | <u>46,598.08</u> | <u>(1,853,778.45)</u> | <u>478,890.91</u> | <u>(30,525,322.47)</u> |
| Capital assets - net | <u>\$ 30,769,009.50</u> | <u>\$ 384,063.66</u> | <u>\$ (533,043.72)</u> | <u>\$ (121,838.05)</u> | <u>\$ 30,498,191.39</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---------------------|------------------------|
| General Government | \$ 336,259.19 |
| Police Department | 105,063.79 |
| Fire Department | 100,175.45 |
| Highway and Streets | 165,428.82 |
| Parks & Recreation | 261,239.14 |
| Drug Fund | 142,504.45 |
| Sanitation Fund | 336,851.67 |
| Schools | <u>406,255.94</u> |
| Total | <u>\$ 1,853,778.45</u> |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – CAPITAL ASSETS (continued)

Business-type Activities

A summary of Proprietary Fund property, plant and equipment as of June 30, 2012 is as follows:

| | Balance July 1, 2011, As Restated | Transfers | Additions | Adjustments/ Disposals | Balance June 30, 2012 |
|--------------------------------|---|---------------------|-------------------------|---------------------------|--------------------------|
| Nondepreciable capital assets: | | | | | |
| Land | \$ 202,937.04 | \$ 0.00 | \$ 8,000.00 | \$ 0.00 | \$ 210,937.04 |
| Construction in Progress | <u>13,448,875.42</u> | <u>0.00</u> | <u>979,302.80</u> | <u>(14,389,641.89)</u> | <u>38,536.33</u> |
| | <u>13,651,812.46</u> | <u>0.00</u> | <u>987,302.80</u> | <u>(14,389,641.89)</u> | <u>249,473.37</u> |
| Depreciable capital assets: | | | | | |
| Building | 407,200.98 | 0.00 | 0.00 | 0.00 | 407,200.98 |
| Equipment | 1,336,973.49 | 218,674.90 | 79,194.00 | (111,423.10) | 1,523,419.29 |
| Utility plant | <u>33,031,721.42</u> | <u>(218,671.90)</u> | <u>14,402,008.27</u> | <u>0.00</u> | <u>47,215,057.79</u> |
| | <u>34,775,895.89</u> | <u>3.00</u> | <u>14,481,202.27</u> | <u>(111,423.10)</u> | <u>49,145,678.06</u> |
| Total capital assets | <u>48,427,708.35</u> | <u>3.00</u> | <u>15,468,505.07</u> | <u>(14,501,064.99)</u> | <u>49,395,151.43</u> |
| Less accumulated depreciation: | | | | | |
| Building | (228,606.92) | 0.00 | (14,484.36) | 0.00 | (243,091.28) |
| Equipment | (1,085,970.59) | 0.00 | (116,241.19) | 111,023.10 | (1,091,188.68) |
| Utility plant | <u>(11,903,898.91)</u> | <u>0.00</u> | <u>(1,034,294.19)</u> | <u>0.00</u> | <u>(12,938,193.10)</u> |
| Total accumulated depreciation | <u>(13,218,476.42)</u> | <u>0.00</u> | <u>(1,165,019.74)</u> | <u>111,023.10</u> | <u>(14,272,473.06)</u> |
| Capital assets - net | <u>\$ 35,209,231.93</u> | <u>\$ 3.00</u> | <u>\$ 14,303,485.33</u> | <u>\$ (14,390,041.89)</u> | <u>\$ 35,122,678.37</u> |

During 2012, depreciation in the amount of \$1,165,019.74 was charged to operations.

NOTE 6 – COMPENSATED ABSENCES

City policy provides for the accumulation of unused vacation. Accumulated vacation and sick leave vest with the employee and may be taken, or paid to the employee upon termination or retirement.

For Governmental Fund accounting and reporting purposes, no amounts accrued at June 30, 2012 are expected to be liquidated with expendable available financial resources; accordingly, a liability is not recorded in the fund statements. Compensated absences are accrued when incurred in the governmental activities and proprietary fund financial statements.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – LONG-TERM DEBT

Governmental Activities:

The following is a summary of changes in long-term debt during the 2012 fiscal year:

| <u>Description of debt</u> | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance June 30, 2012</u> |
|--|---------------------------------|----------------------|-----------------------|----------------------------------|
| General Obligation Debt: | | | | |
| Local Government Public | | | | |
| Improvement Bonds-Series Z-1-A, interest at 2% – 5.375%-General government portion | \$ 11,830,000.00 | \$ 0.00 | \$(335,000.00) | \$ 11,495,000.00 |
| First Vision Bank Note | 275,000.00 | 0.00 | (39,285.71) | 235,714.29 |
| Coffee County Bank Note | 275,000.00 | 0.00 | (38,659.72) | 236,340.28 |
| General Obligation Refunding Bonds, Series 2010, interest at 4.53% – City Portion | 10,615,000.00 | 0.00 | (5,000.00) | 10,610,000.00 |
| Local Government Public Improvement Bonds Series Z-4-A PBA Bonds | 1,430,000.00 | 0.00 | (90,000.00) | 1,340,000.00 |
| Sanitation Equipment Capital Outlay Notes, Series 2006 | 65,000.00 | 0.00 | (25,000.00) | 40,000.00 |
| Recreation Equipment Capital Outlay Note | 13,790.70 | 0.00 | (13,790.70) | 0.00 |
| Less loss on refunding | <u>(111,210.38)</u> | <u>0.00</u> | <u>7,682.81</u> | <u>(103,527.57)</u> |
| Subtotal Bonds | 24,392,580.32 | 0.00 | (539,053.32) | 23,853,527.00 |
| Liability For Compensated Absences | | | | |
| City | 1,189,017.18 | 0.00 | (103,448.09) | 1,085,569.09 |
| Schools | 443,472.33 | 47,027.85 | 0.00 | 490,500.18 |
| OPEB Obligation | <u>306,847.00</u> | <u>147,153.00</u> | <u>0.00</u> | <u>454,000.00</u> |
| Total Debt | <u>\$ 26,331,916.83</u> | <u>\$ 194,180.85</u> | <u>\$(642,501.41)</u> | <u>\$ 25,883,596.27</u> |

General Obligation Debt is secured by the City, which is obligated to levy taxes to the extent necessary to service this debt.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – LONG-TERM DEBT (continued)

Business Type Activities:

The following is a summary of changes in Water & Sewer long-term debt during the 2012 fiscal year:

| | <u>Balance</u> <u>July 1, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2012</u> |
|---|---------------------------------------|---------------------|---------------------|--|
| <u>Water and Sewer Fund</u> | | | | |
| Water & Sewer Revenue & Tax Bonds: | | | | |
| Less loss on refunding | \$ (194,805.56) | \$ 12,384.49 | \$ 0.00 | \$ (182,421.07) |
| Local Government Public Improvement Bonds: | | | | |
| Series Z-1-A, interest at 3-5.375% | | | | |
| Water & Sewer portion | 4,120,000.00 | 0.00 | (390,000.00) | 3,730,000.00 |
| General Obligation Refunding Bonds, Series 2010, interest at 4.53% - Water and Sewer portion | 5,605,000.00 | 0.00 | (20,000.00) | 5,585,000.00 |
| Series Z-1-B, variable interest-DRUC portion | 2,925,000.00 | 0.00 | (5,000.00) | 2,920,000.00 |
| Public Building Authority of Coffee County, TN - Utility Revenue and Tax Bonds-Series 2006 – DRUC Portion | 7,565,000.00 | 0.00 | (30,000.00) | 7,535,000.00 |
| Water & Sewer Revenue & Tax Refunding Bonds – Series 2006 | 735,000.00 | 0.00 | (15,000.00) | 720,000.00 |
| Wastewater Treatment Plant Anticipation Loans | 7,177,071.31 | 1,272,334.86 | 0.00 | 8,449,406.17 |
| Tennessee Public Health State Loan | <u>6,662.93</u> | <u>0.00</u> | <u>(2,492.88)</u> | <u>4,170.05</u> |
| Subtotal Bonds | 27,938,928.68 | 1,284,719.35 | (462,492.88) | 28,761,155.15 |
| Liability for Compensated Absences | <u>211,522.45</u> | <u>25,835.17</u> | <u>0.00</u> | <u>237,357.62</u> |
| Total Debt | <u>\$ 28,150,451.13</u> | <u>1,310,554.52</u> | <u>(462,492.88)</u> | <u>\$ 28,998,512.77</u> |

Revenues and tax bonds and Tennessee Public Health Loans are primarily obligations payable from Enterprise Fund revenues, but in the event of a deficiency, the full faith and credit of the City is irrevocably pledged.

Receivable from the Duck River Utility Commission (DRUC):

The Local Government Public Improvement Bonds-Series Z-1-B-DRUC Portion and Public Building Authority of Coffee County, TN - Utility Revenue and tax Bonds-Series 2006 - DRUC were used by the Duck River Utility Commission to construct their facilities and improvements to utility plant through an agreement with the City of Tullahoma. As a result, DRUC is to be primarily responsible for the repayment of the loans. The receivable from DRUC at June 30, 2012, amounted to \$10,455,000.00.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – LONG-TERM DEBT (continued)

A summary of annual bond debt service requirements at June 30, 2012 for General Obligations Debt, including bonds and capital outlay notes, is as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|-------------------------|-------------------------|
| 2013 | \$ 563,571.42 | \$ 1,050,894.98 |
| 2014 | 573,571.42 | 1,024,868.40 |
| 2015 | 583,571.42 | 1,005,604.96 |
| 2016 | 608,571.42 | 985,537.96 |
| 2017 | 638,571.42 | 963,743.42 |
| 2018-2022 | 3,354,197.47 | 4,380,341.30 |
| 2023-2027 | 4,165,000.00 | 3,631,195.00 |
| 2028-2032 | 5,300,000.00 | 2,657,245.00 |
| 2033-2038 | <u>8,170,000.00</u> | <u>1,464,718.76</u> |
| Total | <u>\$ 23,957,054.57</u> | <u>\$ 17,164,149.78</u> |

A summary of annual bond debt service requirements at June 30, 2012 for Water and Sewer Fund Debt, including bonds and loans, is as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|-------------------------|-------------------------|
| 2013 | \$ 474,170.05 | \$ 840,674.00 |
| 2014 | 745,000.00 | 813,114.00 |
| 2015 | 770,000.00 | 787,614.00 |
| 2016 | 805,000.00 | 760,454.00 |
| 2017 | 830,000.00 | 731,109.00 |
| 2018-2022 | 4,770,000.00 | 3,079,731.25 |
| 2023-2027 | 5,800,000.00 | 2,088,237.50 |
| 2028-2032 | 3,430,000.00 | 1,024,312.25 |
| 2033-2037 | 2,270,000.00 | 491,218.77 |
| 2038-2040 | <u>600,000.00</u> | <u>32,718.75</u> |
| Total | <u>\$ 20,494,170.05</u> | <u>\$ 10,649,183.52</u> |

The City had temporary loans of \$8,449,406.17 in association with the wastewater treatment plant project which have not been included in the summary above due to the terms of the loan not being determined at June 30, 2012.

NOTE 8 – INTERFUND TRANSACTIONS

Individual fund receivables and payables are attributed to charges between funds that are outstanding at June 30, 2012, and revenues collected by the Water & Sewer Fund to be paid to the Sanitation Fund. Interfund balances are expected to be paid during the following fiscal year.

| <u>Fund</u> | <u>Receivables</u> | <u>Payables</u> |
|-----------------------------|---------------------|---------------------|
| Major Funds: | | |
| General Fund | \$ 640.27 | \$ 0.00 |
| General Purpose School Fund | 0.00 | 640.27 |
| Water & Sewer Fund | 0.00 | 76,753.17 |
| Non-major Funds: | | |
| Sanitation Fund | <u>76,753.17</u> | <u>0.00</u> |
| Total | <u>\$ 77,393.44</u> | <u>\$ 77,393.44</u> |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – FUND BALANCES AND NET ASSETS

A summary of changes in fund balances follows:

| | Beginning Fund Balance, as Restated July 1, 2011 | Excess/(Deficit) of Revenues over Expenditures | Transfers/ Other Fund Balance Additions/ (Deletions) | Ending Fund Balance June 30, 2012 |
|--|---|--|--|---|
| General Fund: | | | | |
| Nonspendable | \$ 38,367.90 | \$ 16,872.94 | \$ 0.00 | \$ 55,240.84 |
| Unassigned | <u>2,829,577.74</u> | <u>3,830,565.26</u> | <u>(3,780,177.80)</u> | <u>2,879,965.20</u> |
| Total General Fund | <u>\$ 2,867,945.64</u> | <u>\$ 3,847,438.20</u> | <u>\$ (3,780,177.80)</u> | <u>\$ 2,935,206.04</u> |
| General Purpose School Fund: | | | | |
| Nonspendable | \$ 118,166.00 | \$ 14,057.00 | \$ 0.00 | \$ 132,223.00 |
| Assigned | 64,024.31 | 0.00 | 0.00 | 64,024.31 |
| Unassigned | <u>3,891,712.17</u> | <u>(1,119,650.88)</u> | <u>1,711,683.20</u> | <u>4,483,744.49</u> |
| Total General Purpose School Fund | <u>\$ 4,073,902.48</u> | <u>\$ (1,105,593.88)</u> | <u>\$ 1,711,683.20</u> | <u>\$ 4,679,991.80</u> |
| Special Revenue Funds: | | | | |
| School Federal and State Projects Fund: | | | | |
| Restricted | \$ 0.00 | \$ (98,225.88) | \$ 0.00 | \$ (98,225.88) |
| School Capital Projects Fund | | | | |
| Unassigned | 4,457.02 | 0.00 | 0.00 | 4,457.02 |
| School Cafeteria Fund | | | | |
| Nonspendable | 12,941.38 | 307.67 | 0.00 | 13,249.05 |
| Unassigned | 295,224.53 | 2,656.45 | (25,356.20) | 272,524.78 |
| Recreation Fund | | | | |
| Unassigned | (25,184.60) | (479,805.02) | 503,188.93 | (1,800.69) |
| Sanitation Fund | | | | |
| Unassigned | 155,540.92 | (13,032.49) | (28,005.19) | 114,503.24 |
| Drug Fund | | | | |
| Unassigned | 372,014.46 | 66,460.92 | 0.00 | 438,475.38 |
| Tourism Fund | | | | |
| Unassigned | 1,424.26 | 11,132.19 | 0.00 | 210,556.45 |
| Community Policing Fund | | | | |
| Unassigned | 26,393.33 | (2,743.30) | 3,000.00 | 26,650.03 |
| Fast Track Grant Fund | | | | |
| Unassigned | 0.00 | 0.00 | 0.00 | 0.00 |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – FUND BALANCES AND NET ASSETS (continued)

| | Beginning Fund Balance, as Restated July 1, 2011 | Transfers/ Excess/(Deficit) of Revenues over Expenditures | Other Fund Balance Additions/ (Deletions) | Ending Fund Balance June 30, 2012 |
|------------------------------------|---|--|--|---|
| Debt Service Fund | | | | |
| Unassigned | <u>2,020,182.81</u> | <u>(1,571,814.10)</u> | <u>1,615,667.06</u> | <u>2,064,035.77</u> |
| Total Special Revenue Funds | <u>\$ 3,060,994.11</u> | <u>\$ (2,085,063.56)</u> | <u>\$ 2,068,494.60</u> | <u>\$ 3,044,425.15</u> |
| Proprietary Funds: | | | | |
| Water and Sewer Fund | \$ 14,756,092.38 | \$ 443,213.19 | \$ 4,808,098.56 | \$ 20,007,404.13 |
| Wastewater Treatment Plant Fund | <u>4,394,602.42</u> | <u>413,496.14</u> | <u>(4,808,098.56)</u> | <u>0.00</u> |
| Total Proprietary Funds | <u>\$ 19,150,694.80</u> | <u>\$ 856,709.33</u> | <u>\$ 0.00</u> | <u>\$ 20,007,404.13</u> |

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are now classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by the Mayor and City Council ordinance or resolution.

Assigned – Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by the Mayor and City Council.

Unassigned – All amounts not included in other spendable classifications.

As discussed in Note 1, Restricted funds are used first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to deter the use of these other classified funds.

NOTE 10 – RESTRICTED NET ASSETS

The net assets for the Drug Fund, School Cafeteria Fund, and certain school programs within the General Purpose School Fund have been restricted as they are only available for use within these two funds. As of June 30, 2012, the balances are as follows:

| | |
|-----------------------------|---------------|
| Drug Fund | \$ 438,475.38 |
| School Cafeteria Fund | \$ 285,773.83 |
| General Purpose School Fund | |
| ESP | \$ 61,412.44 |
| We Care | \$ 2,611.87 |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 - RESTATEMENT

During 2012, certain matters were noted which required restatement of the prior year. During the current fiscal year, the City conducted a review of fixed assets on hand, resulting in a restatement of \$6,831.75.

The following summarizes the aforementioned adjustments to fund balance/net assets at July 1, 2011:

| | <u>Governmental Funds</u> |
|---|---------------------------|
| Net assets, beginning of year, as previously reported | \$ 14,439,934.82 |
| Restatements, as discussed above | <u>6,831.75</u> |
| Net assets, beginning of year as restated | <u>\$ 14,446,766.57</u> |

NOTE 12 – DEFICIT FUND BALANCE AND EXPENDITURES IN EXCESS OF BUDGET

The official City budget for June 30, 2012, was prepared for adoption for the General and Special Revenue Funds by June 29, 2011. The budget was formerly adopted by the City Council after three readings at duly advertised public meetings. The final reading was passed as amended on May 15, 2012.

The Manchester’s actual expenditures exceeded the amount appropriated in the final budget. This practice is contrary to state statutes, which require all expenditures of the general and special revenue funds be authorized by the governing body.

For 2012, the following fund/departments over expended budgetary fund balances as follows:

| <u>Fund/Department</u> | <u>Budget</u> | <u>Actual</u> | <u>Overage</u> |
|------------------------|---------------|---------------|----------------|
| Sanitation Fund | \$ 155,540.92 | \$ 114,503.24 | \$ (41,037.68) |
| Recreation Fund | \$ 80,702.40 | \$ (1,800.69) | \$ (82,503.09) |
| School Cafeteria | \$ 308,165.91 | \$ 285,773.83 | \$ (22,392.08) |

At June 30, 2012, the following funds had a deficit fund balance:

| | |
|---------------------------------|----------------|
| Recreation Fund | \$ (1,800.69) |
| School Federal & State Projects | \$ (98,225.88) |

Any deficit fund balance and/or budget overage is the ultimate responsibility of the General Fund.

NOTE 13 – PROPERTY TAXES

The City’s property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City’s legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made.

Assessed values are established by the State of Tennessee at the following rates of assessed market value:

| | |
|---|-----|
| Public Utility Property | 55% |
| Industrial and Commercial Property - Real | 40% |
| - Personal | 30% |
| Farm and Residential Property | 25% |

Taxes are levied at a rate of \$2.2999 per \$100 of assessed valuation.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – PROPERTY TAXES (continued)

Payments may be made during the period from October 1 through February 28. Current tax collections of \$4,266,228.48 for the fiscal year ended June 30, 2012, were approximately 93 percent of the tax levy. During March of each tax year, delinquent taxes are turned over to the county for collection.

NOTE 14 – RETIREMENT PLANS

Tennessee Consolidated Retirement System (TCRS)
Plan Description

Employees of the City of Manchester are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with ten years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after ten years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Manchester participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

City of Manchester requires employees to contribute 5.0 percent of earnable compensation.

City of Manchester is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 6.74% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Manchester is established and may be amended by the TCRS Board of Trustees.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 – RETIREMENT PLANS (continued)

Annual Pension Cost

For the year ending June 30, 2012, the City of Manchester's annual pension cost of \$266,630 to TCRS was equal to City of Manchester's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. City of Manchester's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

| Trend Information | | | | |
|--------------------------|---------------------------------|-------------------------------------|------------------------------|--|
| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation | |
| June 30, 2012 | \$266,630 | 100.00% | \$0.00 | |
| June 30, 2011 | \$249,346 | 100.00% | \$0.00 | |
| June 30, 2010 | \$230,388 | 100.00% | \$0.00 | |

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 87.11 percent funded. The actuarial accrued liability for benefits was \$1.36 million, and the actuarial value of assets was \$1.19 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.18 million. The covered payroll (annual payroll of active employees covered by the plan) was \$3.75 million, and the ratio of the UAAL to the covered payroll was 4.69 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for the benefits.

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b) – (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|--|--|--------------------------|---------------------------|---|
| July 1, 2011 | \$ 1,186 | \$ 1,362 | \$ 175 | 87.11% | \$3,746 | 4.69% |
| July 1, 2009 | \$ 119 | \$ 253 | \$ 134 | 47.14% | \$2,898 | 4.62% |
| July 1, 2007 | \$ 0 | \$ 0 | \$ 0 | 0.00% | \$ 0 | 0.00% |

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 – RETIREMENT PLANS (continued)

Manchester City Schools

The Manchester City Schools contribute to the State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State Statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson State Office Building, Nashville, Tennessee 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/Schools.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Manchester City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2012 was 9.05 percent of annual covered payroll. The employer contribution requirement for Manchester City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010 were \$562,994, \$536,735, and \$378,007, respectively, which were equal to the required contributions for each year.

Manchester Public Employee Retirement System (MPERS)

Any employee participating in the City of Manchester Retirement Plan who was a member of the Plan prior to July 1, 2002, or who was hired between July 1, 2001 and July 1, 2002 and elects to join the Plan at the first available enrollment, and any employee of the Manchester City School Board, shall be permitted to contribute as before, and the City will contribute to match the employee's one (1%) percent contribution with a seven (7%) percent city contribution.

Any person, other than employees of the Manchester City School Board, who began employment with the City of Manchester on or after July 1, 2002, or any current employee who was hired between July 1, 2001 and July 1, 2002 who does not elect to join the Plan at the first available enrollment, or any employee not presently in the Retirement Plan, or who re-joins the Plan after having stopped contributing to it, shall be limited to a City contribution equal to the employee's contribution, up to the maximum City contribution set by the fiscal year Budget Ordinance.

Deferred Compensation Plan

Upon employment, employees of the City of Manchester, Tennessee are eligible to contribute up to \$16,500.00 (as well as an additional \$5,500.00 if over the age of 50) to a 457(b)(6) deferred compensation plan. The City does not match any contributions to this plan.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 – RETIREMENT PLANS (continued)

Other Post Employment Benefit Plan

After 30 years of service, TCRS members are eligible for retirement. If the retiree is not eligible for Medicare, the state of Tennessee will pay 45% of the retiree's single premium payment and the City will cover the remaining 55% until the retiree meets eligibility requirements. This post employment benefit plan only applies to qualified employees of the Manchester City Schools.

NOTE 15 – POST-EMPLOYMENT HEALTHCARE PLAN

Manchester City Schools participates in the state-administered Local Government Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated Section 8-27-207.

Prior to reaching the age of 65, all members have the option of choosing between the standard and partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at: <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. Benefits are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue.

The state provides a premium subsidy to Local Education Agency pre-65 retired teachers and a full subsidy based on years of service for post-65 retired teachers in the Medicare Supplement Plan. There is no employer contribution.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing the costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the June 30, 2011, actuarial valuation for the Local Government plan, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent for the fiscal year 2012. The trend will decrease to 8.75 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The annual healthcare premium trend rate for the Medicare Supplement Plan was 6.50 percent for fiscal year 2012. The trend will decrease to 6.25 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2018. Both rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2008.

CITY OF MANCHESTER, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 16 – CONTINGENT LIABILITIES AND COMMITMENTS

Litigation and Contingency

There were several pending lawsuits in which the City was involved, as well as certain unasserted claims and assessments, which appear probable of assertion. The City attorney is unable, at this time, to determine the probable outcome of such litigation; however, City officials do not believe the eventual outcome will materially affect the financial condition of the City.

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally, the Federal government. Any disallowed claims, including amounts already collected, could become a liability of applicable funds.

Agreement with Tennessee Valley Authority

The City and four other water and sewer systems in the Upper Duck River area entered into agreement with the Tennessee Valley Authority whereby the City's water system is obligated to pay monthly to TVA five cents per 1,000 gallons of water sold during the preceding month.

Contracts

During the year, the Water & Sewer Fund had \$38,536.33 in construction in progress from various projects relative to the water and sewer plant. The Governmental Funds reported \$41,865.25 from the Tourism Fund, which started construction on their downtown renovation project.

NOTE 17 – RISK MANAGEMENT

The City of Manchester is exposed to various risks to general liability and property and casualty losses. The City deemed it was more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for general liability, property, casualty and workman's compensation coverage. The City participates in the Tennessee Risk Management Trust (TRMT). The City pays an annual premium to the TRMT for its general liability and casualty insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MANCHESTER, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR THE CITY OF MANCHESTER - (TCRS)

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|--|--|--------------------------|---------------------------|---|
| July 1, 2011 | \$ 1,186 | \$ 1,362 | \$ 175 | 87.11% | \$ 3,746 | 4.69% |
| July 1, 2009 | \$ 119 | \$ 253 | \$ 134 | 47.14% | \$ 2,898 | 4.62% |
| July 1, 2007 | \$ 0 | \$ 0 | \$ 0 | 0.00% | \$ 0 | 0.00% |

SCHEDULE OF FUNDING PROGRESS FOR THE CITY OF MANCHESTER - (OPEB)

(Dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|--|--|--------------------------|---------------------------|---|
| July 1, 2009 | \$ 0 | \$ 1,456 | \$ 1,456 | 0.00% | \$ 8,162 | 17.83% |
| July 1, 2010 | \$ 0 | \$ 1,000 | \$ 1,000 | 0.00% | \$ 8,306 | 12.04% |
| July 1, 2011 | \$ 0 | \$ 1,863 | \$ 1,863 | 0.00% | \$ 8,476 | 21.98% |

See Accompanying Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

School Federal and State Project Fund - To account for the various federal and state grant programs administered by the School System.

School Cafeteria Fund - To account for the cafeteria operation of the City School System.

School Capital Projects Fund – To account for the financial resources to be used for the acquisition or construction of fixed assets pertaining to the schools.

Recreation Fund - To account for the various revenues and expenditures of the City's Parks and Recreation Department.

Sanitation Fund - To account for the receipts from garbage collection fees and expenses related to the City's sanitation department.

Drug Fund - To account for drug fines received and usage of those monies to further drug investigations.

Tourism Fund - To account for the financial activities of the City's tourism program.

Community Policing Fund - To account for funds restricted for various police projects and purposes.

Fast Track Grant Fund – To account for the Fast Track Grant program.

Debt Service Fund:

To account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt other than payable from the Enterprise Fund.

**CITY OF MANCHESTER, TENNESSEE
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012**

| | School Federal & State Projects Fund | School Capital Projects Fund | School Cafeteria Fund | Recreation Fund | Sanitation Fund | Drug Fund | Tourism Fund | Community Policing Fund | Fast Track Grant Fund | Debt Service Fund | Total |
|---|---|------------------------------------|-----------------------------|----------------------|----------------------|----------------------|----------------------|-------------------------------|-----------------------------|-------------------------|------------------------|
| Assets | | | | | | | | | | | |
| Cash | \$ 4,687.62 | \$ 4,457.02 | \$ 273,160.58 | \$ 37,700.51 | \$ 93,880.95 | \$ 438,782.70 | \$ 198,443.18 | \$ 28,843.99 | \$ 0.00 | \$ 2,064,035.77 | \$ 3,143,992.32 |
| Receivables, less allowance for doubtful accounts | 23,660.24 | 0.00 | 0.00 | 188,307.79 | 0.00 | 0.00 | 12,929.15 | 0.00 | 162,000.00 | 0.00 | 386,897.18 |
| Due from other funds | 0.00 | 0.00 | 0.00 | 0.00 | 76,753.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 76,753.17 |
| Inventories | 0.00 | 0.00 | 13,249.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 13,249.05 |
| Total Assets | \$ 28,347.86 | \$ 4,457.02 | \$ 286,409.63 | \$ 226,008.30 | \$ 170,634.12 | \$ 438,782.70 | \$ 211,372.33 | \$ 28,843.99 | \$ 162,000.00 | \$ 2,064,035.77 | \$ 3,620,891.72 |
| Liabilities and Fund Balance | | | | | | | | | | | |
| Liabilities : | | | | | | | | | | | |
| Accounts payable | \$ 4,495.27 | \$ 0.00 | \$ 635.80 | \$ 109,306.01 | \$ 48,793.80 | \$ 307.32 | \$ 815.88 | \$ 2,193.96 | \$ 0.00 | \$ 0.00 | \$ 166,548.04 |
| Accrued costs | 43,989.52 | 0.00 | 0.00 | 43,043.31 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 87,032.83 |
| Other liabilities | 0.00 | 0.00 | 0.00 | 0.00 | 7,337.08 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 7,337.08 |
| Deferred revenue | 78,088.95 | 0.00 | 0.00 | 75,459.67 | 0.00 | 0.00 | 0.00 | 0.00 | 162,000.00 | 0.00 | 315,548.62 |
| Total Liabilities | 126,573.74 | 0.00 | 635.80 | 227,808.99 | 56,130.88 | 307.32 | 815.88 | 2,193.96 | 162,000.00 | 0.00 | 576,466.57 |
| Fund balance: | | | | | | | | | | | |
| Nonspendable | (98,225.88) | 0.00 | 13,249.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | (84,976.83) |
| Unassigned | 0.00 | 4,457.02 | 272,524.78 | (1,800.69) | 114,503.24 | 438,475.38 | 210,556.45 | 26,650.03 | 0.00 | 2,064,035.77 | 3,129,401.98 |
| Total Fund Balance | (98,225.88) | 4,457.02 | 285,773.83 | (1,800.69) | 114,503.24 | 438,475.38 | 210,556.45 | 26,650.03 | 0.00 | 2,064,035.77 | 3,044,425.15 |
| Total Liabilities and Fund Balance | \$ 28,347.86 | \$ 4,457.02 | \$ 286,409.63 | \$ 226,008.30 | \$ 170,634.12 | \$ 438,782.70 | \$ 211,372.33 | \$ 28,843.99 | \$ 162,000.00 | \$ 2,064,035.77 | \$ 3,620,891.72 |

See Accompanying Independent Auditors' Report.

CITY OF MANCHESTER, TENNESSEE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

| | School Federal & State Projects Fund | School Capital Projects Fund | School Cafeteria Fund | Recreation Fund | Sanitation Fund | Drug Fund | Tourism Fund | Community Policing Fund | Fast Track Grant Fund | Debt Service Fund | Total |
|--|---|------------------------------------|-----------------------------|----------------------|----------------------|----------------------|----------------------|-------------------------------|-----------------------------|-------------------------|------------------------|
| Revenues: | | | | | | | | | | | |
| Taxes | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 158,465.55 | \$ 0.00 | \$ 0.00 | \$ 79,232.75 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 237,698.30 |
| Charges for services | 0.00 | 0.00 | 229,770.11 | 1,171,341.09 | 921,612.71 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,322,723.91 |
| Intergovernmental | 939,673.67 | 0.00 | 656,657.62 | 0.00 | 0.00 | 5,000.00 | 2,294.75 | 0.00 | 0.00 | 0.00 | 1,603,626.04 |
| Investment earnings | 0.00 | 0.00 | 271.68 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 271.68 |
| Uses of money and property | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 46,352.96 | 46,352.96 |
| Miscellaneous | 0.00 | 0.00 | 1,251.36 | 345,211.76 | 0.00 | 232,039.86 | 0.00 | 28,669.22 | 0.00 | 0.00 | 607,172.20 |
| Total Revenues | 939,673.67 | 0.00 | 887,950.77 | 1,675,018.40 | 921,612.71 | 237,039.86 | 81,527.50 | 28,669.22 | 0.00 | 46,352.96 | 4,817,845.09 |
| Expenditures: | | | | | | | | | | | |
| Current: | | | | | | | | | | | |
| Education: | | | | | | | | | | | |
| Program costs | 1,037,899.55 | 0.00 | 884,986.65 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,922,886.20 |
| Sanitation: | | | | | | | | | | | |
| Salaries | 0.00 | 0.00 | 0.00 | 0.00 | 295,746.40 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 295,746.40 |
| Waste disposal charges | 0.00 | 0.00 | 0.00 | 0.00 | 557,041.28 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 557,041.28 |
| Other current operating | 0.00 | 0.00 | 0.00 | 0.00 | 81,857.52 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 81,857.52 |
| Recreation: | | | | | | | | | | | |
| Salaries | 0.00 | 0.00 | 0.00 | 911,186.86 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 911,186.86 |
| Other current operating | 0.00 | 0.00 | 0.00 | 859,312.31 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 859,312.31 |
| General expenditures: | | | | | | | | | | | |
| Program related expenditures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 56,905.94 | 70,395.31 | 31,412.52 | 0.00 | 2,500.00 | 161,213.77 |
| Debt service | | | | | | | | | | | |
| Principal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 546,736.13 | 546,736.13 |
| Interest and other charges | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,068,930.93 | 1,068,930.93 |
| Capital outlay | 0.00 | 0.00 | 0.00 | 384,324.25 | 0.00 | 113,673.00 | 0.00 | 0.00 | 0.00 | 0.00 | 497,997.25 |
| Total Expenditures | 1,037,899.55 | 0.00 | 884,986.65 | 2,154,823.42 | 934,645.20 | 170,578.94 | 70,395.31 | 31,412.52 | 0.00 | 1,618,167.06 | 6,902,908.65 |
| Excess (deficiency) of revenues over expenditures | (98,225.88) | 0.00 | 2,964.12 | (479,805.02) | (13,032.49) | 66,460.92 | 11,132.19 | (2,743.30) | 0.00 | (1,571,814.10) | (2,085,063.56) |
| Other Financing Sources (Uses): | | | | | | | | | | | |
| Operating transfers from other funds | 0.00 | 0.00 | 0.00 | 611,524.00 | 0.00 | 0.00 | 0.00 | 3,000.00 | 0.00 | 1,615,667.06 | 2,230,191.06 |
| Operating transfers to other funds | 0.00 | 0.00 | (25,356.20) | (108,335.07) | (28,005.19) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | (161,696.46) |
| Total Other Financing Sources (Uses) | 0.00 | 0.00 | (25,356.20) | 503,188.93 | (28,005.19) | 0.00 | 0.00 | 3,000.00 | 0.00 | 1,615,667.06 | 2,068,494.60 |
| Excess (deficiency) of revenues over expenditures | (98,225.88) | 0.00 | (22,392.08) | 23,383.91 | (41,037.68) | 66,460.92 | 11,132.19 | 256.70 | 0.00 | 43,852.96 | (16,568.96) |
| Fund Balance, Beginning of Year | 0.00 | 4,457.02 | 308,165.91 | (25,184.60) | 155,540.92 | 372,014.46 | 199,424.26 | 26,393.33 | 0.00 | 2,020,182.81 | 3,060,994.11 |
| Fund Balance, End of Year | \$ (98,225.88) | \$ 4,457.02 | \$ 285,773.83 | \$ (1,800.69) | \$ 114,503.24 | \$ 438,475.38 | \$ 210,556.45 | \$ 26,650.03 | \$ 0.00 | \$ 2,064,035.77 | \$ 3,044,425.15 |

See Accompanying Independent Auditors' Report.

CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012

NOTES TO BUDGET

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to July 1, the City Finance Director submits to the Mayor and Aldermen a proposed operating budget for the forthcoming fiscal year commencing July 1.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through action by the Mayor and Aldermen. For budgetary control purposes, control is established at the department level. In no event shall the total appropriations for any fund included in the budget exceed the estimated revenues and unappropriated fund balance of that fund.
4. The City Finance Director is authorized to transfer appropriations within departments of a fund. Approval of the Mayor and Aldermen is required to amend departmental and/or total appropriations of any fund. All unexpected appropriations lapse into the fund balance of the related fund at the end of the fiscal year.
5. Budgets for governmental fund types (General Fund and Special Revenue Funds) are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts are as originally adopted and as amended by the Board.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
SCHOOL FEDERAL AND STATE PROJECTS FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|-----------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Intergovernmental | | | | | |
| Revenues | \$ 1,806,806.71 | \$ 1,806,806.71 | \$ 1,806,806.71 | \$ 939,673.67 | \$ (867,133.04) |
| Total Revenues | <u>1,806,806.71</u> | <u>1,806,806.71</u> | <u>1,806,806.71</u> | <u>939,673.67</u> | <u>(867,133.04)</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Education: | | | | | |
| Program costs: | | | | | |
| Teachers | 144,128.00 | 144,128.00 | 144,128.00 | 144,128.00 | 0.00 |
| Educational assistance | 358,441.00 | 358,441.00 | 358,441.00 | 359,032.90 | (591.90) |
| Other salaries | 130,283.00 | 130,283.00 | 130,283.00 | 126,135.62 | 4,147.38 |
| Benefits | 239,272.63 | 239,272.63 | 239,272.63 | 228,793.69 | 10,478.94 |
| Instructional supplies and materials | 187,129.42 | 187,129.42 | 187,129.42 | 111,971.73 | 75,157.69 |
| In-service and staff development | 117,617.46 | 117,617.46 | 117,617.46 | 63,350.61 | 54,266.85 |
| Capital outlay | 4,000.00 | 4,000.00 | 4,000.00 | 4,487.00 | (487.00) |
| Total Expenditures | <u>1,180,871.51</u> | <u>1,180,871.51</u> | <u>1,180,871.51</u> | <u>1,037,899.55</u> | <u>142,971.96</u> |
| Excess (deficiency) of revenues over expenditures | <u>625,935.20</u> | <u>625,935.20</u> | <u>625,935.20</u> | <u>(98,225.88)</u> | <u>(724,161.08)</u> |
| Fund Balance, Beginning of Year | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Fund Balance, End of Year | <u>\$ 625,935.20</u> | <u>\$ 625,935.20</u> | <u>\$ 625,935.20</u> | <u>\$ (98,225.88)</u> | <u>\$ (724,161.08)</u> |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
SCHOOL CAFETERIA FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|----------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Intergovernmental: | | | | | |
| USDA | \$ 498,050.00 | \$ 498,050.00 | \$ 498,050.00 | \$ 656,657.62 | \$ 158,607.62 |
| State matching | 8,100.00 | 8,100.00 | 8,100.00 | 8,032.00 | (68.00) |
| Charges for services: | | | | | |
| Student lunches | 132,450.00 | 132,450.00 | 132,450.00 | 142,185.17 | 9,735.17 |
| Student breakfast | 11,200.00 | 11,200.00 | 11,200.00 | 872.50 | (10,327.50) |
| Adult lunches | 25,900.00 | 25,900.00 | 25,900.00 | 28,503.50 | 2,603.50 |
| A la carte meals | 51,500.00 | 51,500.00 | 51,500.00 | 51,428.30 | (71.70) |
| Uses of money and property - interest income | 225.00 | 225.00 | 225.00 | 271.68 | 46.68 |
| Total Revenues | <u>727,425.00</u> | <u>727,425.00</u> | <u>727,425.00</u> | <u>887,950.77</u> | <u>160,525.77</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Program costs: | | | | | |
| Food Service: | | | | | |
| Food | 251,000.00 | 311,000.00 | 311,000.00 | 416,234.26 | (105,234.26) |
| Labor | 286,770.00 | 262,370.00 | 262,370.00 | 275,966.69 | (13,596.69) |
| Fringe benefits | 116,979.00 | 111,930.00 | 111,930.00 | 115,166.78 | (3,236.78) |
| Supplies | 31,471.00 | 31,471.00 | 31,471.00 | 42,151.04 | (10,680.04) |
| Transportation | 3,300.00 | 3,300.00 | 3,300.00 | 3,549.74 | (249.74) |
| Other | 37,905.00 | 38,911.00 | 38,911.00 | 31,918.14 | 6,992.86 |
| Total Expenditures | <u>727,425.00</u> | <u>758,982.00</u> | <u>758,982.00</u> | <u>884,986.65</u> | <u>(126,004.65)</u> |
| Excess (deficiency) of revenues over expenditures | <u>0.00</u> | <u>(31,557.00)</u> | <u>(31,557.00)</u> | <u>2,964.12</u> | <u>34,521.12</u> |
| Other Sources (Uses) of Resources: | | | | | |
| Operating transfers to General Purpose School Fund | 0.00 | 0.00 | 0.00 | (25,356.20) | (25,356.20) |
| Total other Sources (Uses) of Resources | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>(25,356.20)</u> | <u>(25,356.20)</u> |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | <u>0.00</u> | <u>(31,557.00)</u> | <u>(31,557.00)</u> | <u>(22,392.08)</u> | <u>(22,392.08)</u> |
| Fund Balance, Beginning of Year | <u>308,165.91</u> | <u>308,165.91</u> | <u>308,165.91</u> | <u>308,165.91</u> | <u>0.00</u> |
| Fund Balance, End of Year | <u>\$ 308,165.91</u> | <u>\$ 308,165.91</u> | <u>\$ 308,165.91</u> | <u>\$ 285,773.83</u> | <u>\$ (22,392.08)</u> |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
RECREATION FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|-----------------------|---------------------|---------------------|----------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Intergovernmental | | | | | |
| Room occupancy tax | \$ 145,000.00 | \$ 145,000.00 | \$ 145,000.00 | \$ 158,465.55 | \$ 13,465.55 |
| Grants | 264,000.00 | 409,800.00 | 409,800.00 | 312,040.58 | (97,759.42) |
| Charges for service: | | | | | |
| Membership fees and dues | 865,000.00 | 796,000.00 | 796,000.00 | 813,757.67 | 17,757.67 |
| Concessions | 200,000.00 | 197,000.00 | 197,000.00 | 181,164.63 | (15,835.37) |
| Activity fees and charges | 161,600.00 | 163,600.00 | 163,600.00 | 176,418.79 | 12,818.79 |
| Miscellaneous | 8,000.00 | 8,000.00 | 8,000.00 | 33,171.18 | 25,171.18 |
| Total Revenues | <u>1,643,600.00</u> | <u>1,719,400.00</u> | <u>1,719,400.00</u> | <u>1,675,018.40</u> | <u>(44,381.60)</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Salaries and employee benefits | 931,719.00 | 929,853.00 | 929,853.00 | 907,386.86 | 22,466.14 |
| Contract services | 398,300.00 | 390,900.00 | 390,900.00 | 421,115.11 | (30,215.11) |
| Supplies | 108,500.00 | 128,000.00 | 109,500.00 | 117,949.31 | (8,449.31) |
| Other | 224,751.00 | 223,753.00 | 242,253.00 | 319,087.60 | (76,834.60) |
| Capital outlay | 342,875.00 | 439,552.00 | 439,552.00 | 389,284.54 | 50,267.46 |
| Total Expenditures | <u>2,006,145.00</u> | <u>2,112,058.00</u> | <u>2,112,058.00</u> | <u>2,154,823.42</u> | <u>(42,765.42)</u> |
| Excess (deficiency) of revenues over expenditures | (362,545.00) | (392,658.00) | (392,658.00) | (479,805.02) | (87,147.02) |
| Other Sources of Resources: | | | | | |
| Transfer to Debt Service Fund | 0.00 | (112,979.00) | (112,979.00) | (108,335.07) | 4,643.93 |
| Operating transfers from General Fund | 362,545.00 | 491,524.00 | 611,524.00 | 611,524.00 | 0.00 |
| Total Other Sources (Uses) of Resources | <u>362,545.00</u> | <u>378,545.00</u> | <u>498,545.00</u> | <u>503,188.93</u> | <u>4,643.93</u> |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | 0.00 | (14,113.00) | 105,887.00 | 23,383.91 | (82,503.09) |
| Fund Balance, Beginning of Year | <u>(25,184.60)</u> | <u>(25,184.60)</u> | <u>(25,184.60)</u> | <u>(25,184.60)</u> | <u>0.00</u> |
| Fund Balance, End of Year | <u>\$ (25,184.60)</u> | <u>(39,297.60)</u> | <u>\$ 80,702.40</u> | <u>\$ (1,800.69)</u> | <u>\$ (82,503.09)</u> |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
SANITATION FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|----------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Charges for services: | | | | | |
| Garbage fee | \$ 917,000.00 | \$ 932,200.00 | \$ 932,200.00 | \$ 921,612.71 | \$ (10,587.29) |
| Total Revenues | <u>917,000.00</u> | <u>932,200.00</u> | <u>932,200.00</u> | <u>921,612.71</u> | <u>(10,587.29)</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Salaries and employee benefits | 307,907.00 | 309,107.00 | 309,107.00 | 295,746.40 | 13,360.60 |
| Waste disposal charges | 529,414.00 | 529,414.00 | 529,414.00 | 557,041.28 | (27,627.28) |
| Other current operating | <u>79,679.00</u> | <u>93,679.00</u> | <u>93,679.00</u> | <u>81,857.52</u> | <u>11,821.48</u> |
| Total Expenditures | <u>917,000.00</u> | <u>932,200.00</u> | <u>932,200.00</u> | <u>934,645.20</u> | <u>(2,445.20)</u> |
| Excess (deficiency) of revenues over expenditures | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>(13,032.49)</u> | <u>(13,032.49)</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfer to Debt Service Fund | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>(28,005.19)</u> | <u>(28,005.19)</u> |
| Total Other Financing Sources | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>(28,005.19)</u> | <u>(28,005.19)</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>(41,037.68)</u> | <u>(41,037.68)</u> |
| Fund Balance, Beginning of Year | <u>155,540.92</u> | <u>155,540.92</u> | <u>155,540.92</u> | <u>155,540.92</u> | <u>0.00</u> |
| Fund Balance, End of Year | <u>\$ 155,540.92</u> | <u>\$ 155,540.92</u> | <u>\$ 155,540.92</u> | <u>\$ 114,503.24</u> | <u>\$ (41,037.68)</u> |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
DRUG FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|------------------|---------------|---------------|-------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Miscellaneous: | | | | | |
| Program revenue | \$ 142,900.00 | \$ 164,900.00 | \$ 164,900.00 | \$ 237,039.86 | \$ 72,139.86 |
| Total Revenues | 142,900.00 | 164,900.00 | 164,900.00 | 237,039.86 | 72,139.86 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General expenditures: | | | | | |
| Drug related | 74,700.00 | 76,800.00 | 76,800.00 | 126,471.56 | (49,671.56) |
| Capital outlay | 68,200.00 | 68,200.00 | 68,200.00 | 44,107.38 | 24,092.62 |
| Total Expenditures | 142,900.00 | 145,000.00 | 145,000.00 | 170,578.94 | (25,578.94) |
| Excess (deficiency) of revenues over expenditures | 0.00 | 19,900.00 | 19,900.00 | 66,460.92 | 46,560.92 |
| Fund Balance, Beginning of Year | 372,014.46 | 372,014.46 | 372,014.46 | 372,014.46 | 0.00 |
| Fund Balance, End of Year | \$ 372,014.46 | \$ 391,914.46 | \$ 391,914.46 | \$ 438,475.38 | \$ 46,560.92 |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
TOURISM FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|----------------------|----------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Taxes: | | | | | |
| Motel tax | \$ 75,000.00 | \$ 85,000.00 | \$ 85,000.00 | \$ 79,232.75 | \$ (5,767.25) |
| Grant revenues | 0.00 | 50,000.00 | 50,000.00 | 2,294.75 | (47,705.25) |
| Total Revenues | <u>75,000.00</u> | <u>135,000.00</u> | <u>135,000.00</u> | <u>81,527.50</u> | <u>(53,472.50)</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Program related costs | 75,000.00 | 153,250.00 | 153,250.00 | 67,895.31 | 85,354.69 |
| Total Expenditures | <u>75,000.00</u> | <u>153,250.00</u> | <u>153,250.00</u> | <u>67,895.31</u> | <u>85,354.69</u> |
| Excess (deficiency) of revenues over expenditures | 0.00 | (18,250.00) | (18,250.00) | 13,632.19 | 31,882.19 |
| Other Financing Sources (Uses): | | | | | |
| Transfer to General Fund | 0.00 | 0.00 | 0.00 | 2,500.00 | (2,500.00) |
| Total Other Financing Sources | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>2,500.00</u> | <u>(2,500.00)</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | 0.00 | (18,250.00) | (18,250.00) | 11,132.19 | 29,382.19 |
| Fund Balance, Beginning of Year | <u>199,424.26</u> | <u>199,424.26</u> | <u>199,424.26</u> | <u>199,424.26</u> | <u>0.00</u> |
| Fund Balance, End of Year | <u>\$ 199,424.26</u> | <u>\$ 181,174.26</u> | <u>\$ 181,174.26</u> | <u>\$ 210,556.45</u> | <u>\$ 29,382.19</u> |

See Accompanying Independent Auditors' Report.

CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
COMMUNITY POLICING FUND
For the Year Ended June 30, 2012

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|------------------|--------------|--------------|-------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Miscellaneous | \$ 42,500.00 | \$ 42,500.00 | \$ 42,500.00 | \$ 28,669.22 | \$ (13,830.78) |
| Total Revenues | 42,500.00 | 42,500.00 | 42,500.00 | 28,669.22 | (13,830.78) |
| Expenditures: | | | | | |
| Current: | | | | | |
| General expenditures: | | | | | |
| Program related expenditures | 42,500.00 | 42,500.00 | 42,500.00 | 31,412.52 | 11,087.48 |
| Total Expenditures | 42,500.00 | 42,500.00 | 42,500.00 | 31,412.52 | 11,087.48 |
| Other Financing Sources (Uses): | | | | | |
| Transfer from General Fund | 0.00 | 0.00 | 0.00 | 3,000.00 | 3,000.00 |
| Total Other Financing Sources | 0.00 | 0.00 | 0.00 | 3,000.00 | 3,000.00 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | 0.00 | 0.00 | 0.00 | 256.70 | 256.70 |
| Fund Balance, Beginning of Year | 26,393.33 | 26,393.33 | 26,393.33 | 26,393.33 | 0.00 |
| Fund Balance, End of Year | \$ 26,393.33 | \$ 26,393.33 | \$ 26,393.33 | \$ 26,650.03 | \$ 256.70 |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
FAST TRACK GRANT FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|------------------|---------|---------|-------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Grants | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Total Revenues | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General expenditures: | | | | | |
| Program related expenditures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Expenditures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Excess (deficiency) of revenues over expenditures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Fund Balance, Beginning of Year | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Fund Balance, End of Year | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
DEBT SERVICE FUND
For the Year Ended June 30, 2012**

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------------|-----------------|-------------------|---|
| | Original | Amended | Final | | |
| Revenues: | | | | | |
| Miscellaneous | \$ 58,700.00 | \$ 58,700.00 | \$ 58,700.00 | \$ 46,352.96 | \$ (12,347.04) |
| Total Revenues | 58,700.00 | 58,700.00 | 58,700.00 | 46,352.96 | (12,347.04) |
| Expenditures: | | | | | |
| Current: | | | | | |
| General expenditures: | | | | | |
| Program related expenditures | 1,658,555.00 | 1,658,555.00 | 1,658,555.00 | 1,618,167.06 | 40,387.94 |
| Total Expenditures | 1,658,555.00 | 1,658,555.00 | 1,658,555.00 | 1,618,167.06 | 40,387.94 |
| Other Financing Sources (Uses): | | | | | |
| Transfers from other funds | 1,599,855.00 | 1,599,855.00 | 1,599,855.00 | 1,615,667.06 | 15,812.06 |
| Total Other Financing Sources | 1,599,855.00 | 1,599,855.00 | 1,599,855.00 | 1,615,667.06 | 15,812.06 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | 0.00 | 0.00 | 0.00 | 43,852.96 | 43,852.96 |
| Fund Balance, Beginning of Year | 2,020,182.81 | 2,020,182.81 | 2,020,182.81 | 2,020,182.81 | 0.00 |
| Fund Balance, End of Year | \$ 2,020,182.81 | \$ 2,020,182.81 | \$ 2,020,182.81 | \$ 2,064,035.77 | \$ 43,852.96 |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

| CFDA Number | State Grant Number | Program Name | Grantor Agency | Deferred (Receivable) | | | | Deferred (Receivable) |
|------------------------------------|--------------------------|---|---|--------------------------|----------------------------|------------------------|------------------------|--------------------------|
| | | | | Balance 6-30-11 | Transfers & Adjustments | Receipts | Disbursements | |
| Federal Grants | | | | | | | | |
| 84.027 | - | IDEA | Department of Education | \$ (3,364.68) | \$ 46,454.68 | \$ 346,446.00 | 398,851.00 | \$ (9,315.00) |
| 84.367 | - | Title II | Department of Education | (2,788.52) | 10,417.52 | 25,318.00 | 31,947.00 | 1,000.00 |
| 84.010 | - | Title I | Department of Education | 15,810.00 | 0.00 | 263,299.00 | 294,515.00 | (15,406.00) |
| 84.318 | - | Education Technology | Department of Education | (4,389.00) | 4,389.00 | 189,086.00 | 189,086.00 | 0.00 |
| 84.358 | - | Title VI | Department of Education | (651.00) | 651.00 | 19,849.00 | 18,719.00 | 1,130.00 |
| 84.365 | - | Title III | Department of Education | 1,471.00 | 5,974.00 | 19,575.00 | 25,635.00 | 1,385.00 |
| | - | Computer Support | Department of Education | 0.00 | 0.00 | 13,600.00 | 12,543.00 | 1,057.00 |
| | - | Child Nutrition Equipment Grant | Department of Education | 0.00 | 0.00 | 25,356.50 | 25,356.50 | 0.00 |
| 93.283 | - | Eat Well Play More Tennessee | Department of Health | 0.00 | 0.00 | 18,500.00 | 20,497.02 | (1,997.02) |
| 10.555 | - | USDA Lunch Program | Department of Agriculture | (41,172.60) | 0.00 | 409,327.44 | 409,007.91 | (40,853.07) |
| 10.553 | - | USDA Breakfast Program | Department of Agriculture | (11,667.00) | 0.00 | 137,440.23 | 140,926.89 | (15,153.66) |
| Total Federal Grants - Cash | | | | (46,751.80) | 67,886.20 | 1,467,797.17 | 1,567,084.32 | (78,152.75) |
| Federal Grants - ARRA | | | | | | | | |
| 84.392 | - | Preschool | Department of Education | 2,340.66 | 0.00 | 0.00 | 2,340.66 | 0.00 |
| 84.394 | - | State Fiscal Stabilization Fund | Department of Education | (116,700.00) | 0.00 | 120,286.62 | 3,586.62 | (0.00) |
| 84.397 | - | State Fiscal Stabilization Fund | Department of Education | 0.00 | 0.00 | 0.00 | 27,591.34 | (27,591.34) |
| 84.391 | - | IDEA, Part B | Department of Education | 2,341.00 | 0.00 | 0.00 | 2,341.00 | 0.00 |
| 84.395 | - | Race to The Top | Department of Education | 1,774.00 | 0.00 | 62,500.00 | 64,262.00 | 12.00 |
| 84.389 | - | Title I | Department of Education | (2,063.00) | 2,063.00 | 0.00 | 0.00 | 0.00 |
| 93.283 | - | Diabetes Initiative Implementation Grant | Department of Health | 0.00 | 0.00 | 135,400.00 | 135,400.00 | 0.00 |
| 66.458 | - | Waste Water Treatment Plant | Environmental Protection Agency | (141,640.21) | 0.00 | 183,113.31 | 44,535.00 | (3,061.90) |
| 10.781 | - | Water and Waste Disposal for Rural | Department of Agriculture | (904,061.05) | 0.00 | 1,757,407.54 | 876,858.09 | (23,511.60) |
| 16.710 | 2009RKWX0801 | Public Safety Partnership | Department of Justice | 0.00 | 0.00 | 123,889.45 | 123,889.45 | 0.00 |
| Total Federal Grants - ARRA | | | | (1,158,008.60) | 2,063.00 | 2,382,596.92 | 1,280,804.16 | (54,152.84) |
| Federal Grants - Non Cash | | | | | | | | |
| 10.555 | - | USDA Commodity Food | Department of Agriculture | 0.00 | 0.00 | 36,725.59 | 36,725.59 | 0.00 |
| | | | | 0.00 | 0.00 | 36,725.59 | 36,725.59 | 0.00 |
| Total Federal Grants | | | | \$ (1,204,760.40) | \$ 69,949.20 | \$ 3,887,119.68 | \$ 2,884,614.07 | \$ (132,305.59) |
| State Grants | | | | | | | | |
| CWA 2008-217 | - | Waste Water Treatment Plant | Tennessee Department of Environmental Protection Agency | \$ (141,640.22) | \$ 0.00 | \$ 172,521.32 | \$ 34,053.00 | \$ (3,171.90) |
| - | - | Police State Supplement | Tennessee Department of Commerce | 0.00 | 0.00 | 19,200.00 | 19,200.00 | 0.00 |
| - | - | Fire State Supplement | Tennessee Department of Commerce | 0.00 | 0.00 | 17,400.00 | 17,400.00 | 0.00 |
| GG-1134231 | - | Recreation Trails Program Grant | Tennessee Department of Environment and Conservation | 0.00 | 0.00 | 95,000.00 | 95,000.00 | 0.00 |
| GG-113575400 | - | Local Park & Recreation Fund | Tennessee Department of Environment and Conservation | 0.00 | 0.00 | 79,740.58 | 79,740.58 | 0.00 |
| 154AL-12-186 | - | High Visibility Law Enforcement Campaign | Tennessee Department of Transportation | 0.00 | 0.00 | 8,000.00 | 8,000.00 | 0.00 |
| | - | Tennessee Tourism Partnership Marketing Program | Tennessee Department of Tourist Development | 0.00 | 0.00 | 2,294.75 | 2,294.75 | 0.00 |
| | - | Tennessee Department of Transportation | Tennessee Department of Transportation | 0.00 | 0.00 | 24,225.25 | 24,225.25 | 0.00 |
| | - | Child Nutrition State Matching | Tennessee Department of Education | 0.00 | 0.00 | 8,032.00 | 8,032.00 | 0.00 |
| | - | Early Childhood Education | Tennessee Department of Education | 0.00 | 0.00 | 272,247.31 | 391,930.09 | (119,682.78) |
| Total State Grants | | | | \$ (141,640.22) | \$ 0.00 | \$ 698,661.21 | \$ 679,875.67 | \$ (122,854.68) |

Basis of Presentation:

Note 1: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarized the expenditures of the City of Manchester under programs of the federal and state government for the year ended June 30, 2012. The schedule is presented using the modified accrual basis of accounting.

See Accompanying Independent Auditors' Report.

CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012

SCHEDULE OF TRANSFERS

| | |
|---|----------------------------|
| Transfer from General Fund to Recreation Fund | \$ 611,524.00 |
| Transfer from General Fund to General Purpose School Fund | 1,686,327.00 |
| Transfer from General Fund to Debt Service Fund | 1,479,326.80 |
| Transfer from General Fund to Community Policing Fund | 3,000.00 |
| Transfer from Recreation Fund to Debt Service Fund | 108,335.07 |
| Transfer from Sanitation Fund to Debt Service Fund | 28,005.19 |
| Transfer from Wastewater Treatment Plant Fund to Water & Sewer Fund | 4,808,098.56 |
| Transfer from School Cafeteria Fund to General Purpose School Fund | <u>25,356.20</u> |
| Total Transfers | <u>\$ 8,749,972.82</u> |

See Accompanying Independent Auditors' Report.

CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012

SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS TO MATURITY - GENERAL OBLIGATION DEBT

| Fiscal Year | Local Government Public Improvement Bonds Series Z-1-A | | General Obligation Refunding Bonds, Series 2010 | | First Vision Bank | | Coffee County Bank | | Local Government Public Improvement Bonds Serice Z-4-A PBA Bonds | | Sanitation Equipment Capital Outlay Notes, Series 2006 | | Total | |
|-------------|--|------------------------|---|-------------------------|----------------------|---------------------|----------------------|---------------------|--|----------------------|--|--------------------|-------------------------|-------------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | 355,000.00 | 482,546.00 | 5,000.00 | 494,105.00 | 39,285.71 | 9,961.49 | 39,285.71 | 9,961.49 | 100,000.00 | 52,465.00 | 25,000.00 | 1,856.00 | 563,571.42 | 1,050,894.98 |
| 2014 | 365,000.00 | 464,796.00 | 5,000.00 | 494,005.00 | 39,285.71 | 8,453.20 | 39,285.71 | 8,453.20 | 110,000.00 | 48,465.00 | 15,000.00 | 696.00 | 573,571.42 | 1,024,868.40 |
| 2015 | 375,000.00 | 453,846.00 | 10,000.00 | 493,905.00 | 39,285.71 | 6,894.48 | 39,285.71 | 6,894.48 | 120,000.00 | 44,065.00 | 0.00 | 0.00 | 583,571.42 | 1,005,604.96 |
| 2016 | 385,000.00 | 441,846.00 | 10,000.00 | 493,705.00 | 39,285.71 | 5,360.98 | 39,285.71 | 5,360.98 | 135,000.00 | 39,265.00 | 0.00 | 0.00 | 608,571.42 | 985,537.96 |
| 2017 | 405,000.00 | 428,756.00 | 10,000.00 | 493,467.50 | 39,285.71 | 3,827.46 | 39,285.71 | 3,827.46 | 145,000.00 | 33,865.00 | 0.00 | 0.00 | 638,571.42 | 963,743.42 |
| 2018 | 420,000.00 | 406,988.00 | 10,000.00 | 493,205.00 | 39,285.74 | 2,302.37 | 39,285.71 | 2,302.37 | 160,000.00 | 28,427.50 | 0.00 | 0.00 | 668,571.45 | 933,225.24 |
| 2019 | 445,000.00 | 384,413.00 | 10,000.00 | 492,930.00 | 0.00 | 0.00 | 626.02 | 37.56 | 175,000.00 | 22,347.50 | 0.00 | 0.00 | 630,626.02 | 899,728.06 |
| 2020 | 450,000.00 | 367,725.00 | 10,000.00 | 492,630.00 | 0.00 | 0.00 | 0.00 | 0.00 | 190,000.00 | 15,610.00 | 0.00 | 0.00 | 650,000.00 | 875,965.00 |
| 2021 | 470,000.00 | 349,163.00 | 10,000.00 | 492,305.00 | 0.00 | 0.00 | 0.00 | 0.00 | 205,000.00 | 8,200.00 | 0.00 | 0.00 | 685,000.00 | 849,668.00 |
| 2022 | 710,000.00 | 329,775.00 | 10,000.00 | 491,980.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 720,000.00 | 821,755.00 |
| 2023 | 745,000.00 | 300,488.00 | 10,000.00 | 491,655.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 755,000.00 | 792,143.00 |
| 2024 | 775,000.00 | 269,756.00 | 10,000.00 | 491,305.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 785,000.00 | 761,061.00 |
| 2025 | 825,000.00 | 237,788.00 | 10,000.00 | 490,905.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 835,000.00 | 728,693.00 |
| 2026 | 865,000.00 | 202,725.00 | 10,000.00 | 490,505.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 875,000.00 | 693,230.00 |
| 2027 | 905,000.00 | 165,963.00 | 10,000.00 | 490,105.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 915,000.00 | 656,068.00 |
| 2028 | 950,000.00 | 127,500.00 | 10,000.00 | 489,705.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 960,000.00 | 617,205.00 |
| 2029 | 1,000,000.00 | 87,125.00 | 10,000.00 | 489,305.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,010,000.00 | 576,430.00 |
| 2030 | 1,050,000.00 | 44,625.00 | 10,000.00 | 488,885.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,060,000.00 | 533,510.00 |
| 2031 | 0.00 | 0.00 | 1,115,000.00 | 488,465.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,115,000.00 | 488,465.00 |
| 2032 | 0.00 | 0.00 | 1,155,000.00 | 441,635.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,155,000.00 | 441,635.00 |
| 2033 | 0.00 | 0.00 | 1,195,000.00 | 393,125.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,195,000.00 | 393,125.00 |
| 2034 | 0.00 | 0.00 | 1,265,000.00 | 340,843.76 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,265,000.00 | 340,843.76 |
| 2035 | 0.00 | 0.00 | 1,330,000.00 | 285,500.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,330,000.00 | 285,500.00 |
| 2036 | 0.00 | 0.00 | 1,380,000.00 | 219,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,380,000.00 | 219,000.00 |
| 2037 | 0.00 | 0.00 | 1,475,000.00 | 150,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,475,000.00 | 150,000.00 |
| 2038 | 0.00 | 0.00 | 1,525,000.00 | 76,250.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,525,000.00 | 76,250.00 |
| | <u>\$ 11,495,000.00</u> | <u>\$ 5,545,824.00</u> | <u>\$ 10,610,000.00</u> | <u>\$ 11,249,426.26</u> | <u>\$ 235,714.29</u> | <u>\$ 36,799.98</u> | <u>\$ 236,340.28</u> | <u>\$ 36,837.54</u> | <u>\$ 1,340,000.00</u> | <u>\$ 292,710.00</u> | <u>\$ 40,000.00</u> | <u>\$ 2,552.00</u> | <u>\$ 23,957,054.57</u> | <u>\$ 17,164,149.78</u> |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS TO MATURITY - WATER AND SEWER FUND (REVENUE & TAX BACKED) DEBT

| Fiscal Year | Tennessee Loan Program #537 | | Local Government Public Improvement Bonds Series Z-1-A | | General Obligation Refunding Bonds, Series 2010 | | Local Government Public Improvement Bonds Series Z-1-B-DRUC* | | Water & Sewer Revenue & Tax Refunding Bonds Series 2006 - DRUC | | Water & Sewer Revenue & Tax Refunding Bonds Series 2006 | | Totals | |
|-------------|-----------------------------|----------|--|---------------|---|-----------------|--|-----------------|--|-----------------|---|---------------|------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | 4,170.05 | 0.00 | 405,000.00 | 155,536.00 | 20,000.00 | 208,800.00 | 0.00 | 146,250.00 | 30,000.00 | 300,398.00 | 15,000.00 | 29,690.00 | 474,170.05 | 840,674.00 |
| 2014 | 0.00 | 0.00 | 420,000.00 | 135,286.00 | 20,000.00 | 208,400.00 | 0.00 | 146,250.00 | 290,000.00 | 294,058.00 | 15,000.00 | 29,120.00 | 745,000.00 | 813,114.00 |
| 2015 | 0.00 | 0.00 | 430,000.00 | 122,686.00 | 20,000.00 | 208,000.00 | 0.00 | 146,250.00 | 305,000.00 | 282,158.00 | 15,000.00 | 28,520.00 | 770,000.00 | 787,614.00 |
| 2016 | 0.00 | 0.00 | 455,000.00 | 108,926.00 | 20,000.00 | 207,600.00 | 0.00 | 146,250.00 | 315,000.00 | 269,758.00 | 15,000.00 | 27,920.00 | 805,000.00 | 760,454.00 |
| 2017 | 0.00 | 0.00 | 470,000.00 | 93,456.00 | 20,000.00 | 207,125.00 | 0.00 | 146,250.00 | 325,000.00 | 256,958.00 | 15,000.00 | 27,320.00 | 830,000.00 | 731,109.00 |
| 2018 | 0.00 | 0.00 | 495,000.00 | 68,194.00 | 20,000.00 | 206,600.00 | 0.00 | 146,250.00 | 340,000.00 | 244,083.00 | 15,000.00 | 26,738.75 | 870,000.00 | 691,865.75 |
| 2019 | 0.00 | 0.00 | 515,000.00 | 41,588.00 | 20,000.00 | 206,050.00 | 0.00 | 146,250.00 | 350,000.00 | 231,058.00 | 20,000.00 | 26,077.50 | 905,000.00 | 651,023.50 |
| 2020 | 0.00 | 0.00 | 540,000.00 | 22,275.00 | 20,000.00 | 205,450.00 | 0.00 | 146,250.00 | 375,000.00 | 217,189.00 | 20,000.00 | 25,312.50 | 955,000.00 | 616,476.50 |
| 2021 | 0.00 | 0.00 | 0.00 | 0.00 | 595,000.00 | 204,800.00 | 0.00 | 146,250.00 | 385,000.00 | 202,463.00 | 20,000.00 | 24,537.50 | 1,000,000.00 | 578,050.50 |
| 2022 | 0.00 | 0.00 | 0.00 | 0.00 | 615,000.00 | 185,462.50 | 0.00 | 146,250.00 | 405,000.00 | 186,855.00 | 20,000.00 | 23,747.50 | 1,040,000.00 | 542,315.00 |
| 2023 | 0.00 | 0.00 | 0.00 | 0.00 | 625,000.00 | 165,475.00 | 0.00 | 146,250.00 | 420,000.00 | 170,355.00 | 20,000.00 | 22,947.50 | 1,065,000.00 | 505,027.50 |
| 2024 | 0.00 | 0.00 | 0.00 | 0.00 | 670,000.00 | 143,600.00 | 0.00 | 146,250.00 | 435,000.00 | 153,255.00 | 20,000.00 | 22,147.50 | 1,125,000.00 | 465,252.50 |
| 2025 | 0.00 | 0.00 | 0.00 | 0.00 | 685,000.00 | 116,800.00 | 0.00 | 146,250.00 | 455,000.00 | 135,455.00 | 20,000.00 | 21,347.50 | 1,160,000.00 | 419,852.50 |
| 2026 | 0.00 | 0.00 | 0.00 | 0.00 | 705,000.00 | 89,400.00 | 0.00 | 146,250.00 | 465,000.00 | 117,055.00 | 25,000.00 | 20,447.50 | 1,195,000.00 | 373,152.50 |
| 2027 | 0.00 | 0.00 | 0.00 | 0.00 | 745,000.00 | 61,200.00 | 0.00 | 146,250.00 | 485,000.00 | 98,055.00 | 25,000.00 | 19,447.50 | 1,255,000.00 | 324,952.50 |
| 2028 | 0.00 | 0.00 | 0.00 | 0.00 | 785,000.00 | 31,400.00 | 0.00 | 146,250.00 | 510,000.00 | 77,900.00 | 25,000.00 | 18,435.00 | 1,320,000.00 | 273,985.00 |
| 2029 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 146,250.00 | 530,000.00 | 56,580.00 | 25,000.00 | 17,410.00 | 555,000.00 | 220,240.00 |
| 2030 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 146,250.00 | 545,000.00 | 34,543.00 | 30,000.00 | 16,282.50 | 575,000.00 | 197,075.50 |
| 2031 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 146,250.00 | 570,000.00 | 11,678.00 | 30,000.00 | 15,052.50 | 600,000.00 | 172,980.50 |
| 2032 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 350,000.00 | 146,250.00 | 0.00 | 0.00 | 30,000.00 | 13,781.25 | 380,000.00 | 160,031.25 |
| 2033 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 375,000.00 | 128,750.00 | 0.00 | 0.00 | 30,000.00 | 12,468.75 | 405,000.00 | 141,218.75 |
| 2034 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 400,000.00 | 110,000.00 | 0.00 | 0.00 | 35,000.00 | 11,046.88 | 435,000.00 | 121,046.88 |
| 2035 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 425,000.00 | 90,000.00 | 0.00 | 0.00 | 35,000.00 | 9,515.63 | 460,000.00 | 99,515.63 |
| 2036 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 450,000.00 | 68,750.00 | 0.00 | 0.00 | 35,000.00 | 7,984.38 | 485,000.00 | 76,734.38 |
| 2037 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 450,000.00 | 46,250.00 | 0.00 | 0.00 | 35,000.00 | 6,453.13 | 485,000.00 | 52,703.13 |
| 2038 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 470,000.00 | 23,750.00 | 0.00 | 0.00 | 40,000.00 | 4,812.50 | 510,000.00 | 28,562.50 |
| 2039 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 40,000.00 | 3,062.50 | 40,000.00 | 3,062.50 |
| 2040 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 50,000.00 | 1,093.75 | 50,000.00 | 1,093.75 |
| | \$ 4,170.05 | \$ - | \$ 3,730,000.00 | \$ 747,947.00 | \$ 5,585,000.00 | \$ 2,656,162.50 | \$ 2,920,000.00 | \$ 3,392,500.00 | \$ 7,535,000.00 | \$ 3,339,854.00 | \$ 720,000.00 | \$ 512,720.02 | \$ 20,494,170.05 | \$ 10,649,183.52 |

The City had temporary loans of \$8,449,406.17 in association with the wastewater treatment plant project which have not been included in the schedule above due to the terms of the loan not being determined at June 30, 2012.

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012**

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE*

| | Balance July 1, 2011 | Levy | Adjustments and Collections | Balance June 30, 2012 |
|---------------------|-------------------------|------------------------|-----------------------------------|--------------------------|
| Tax Year | | | | |
| 2011 | \$ 0.00 | \$ 4,573,227.05 | \$ (4,260,219.35) | \$ 313,007.70 |
| 2010 | 367,013.55 | 0.00 | (286,945.01) | 80,068.54 |
| 2009 | 58,363.12 | 0.00 | (14,949.84) | 43,413.28 |
| 2008 | 28,227.23 | 0.00 | (9,292.20) | 18,935.03 |
| 2007 | 9,422.92 | 0.00 | (2,907.64) | 6,515.28 |
| 2006 | 7,506.52 | 0.00 | (220.74) | 7,285.78 |
| 2005 | 1,590.33 | 0.00 | (788.21) | 802.12 |
| 2004 | 1,254.65 | 0.00 | (191.83) | 1,062.82 |
| 2003 | 1,869.81 | 0.00 | 0.00 | 1,869.81 |
| 2002 and thereafter | 1,935.09 | 0.00 | (234.19) | 1,700.90 |
| Total | <u>\$ 477,183.22</u> | <u>\$ 4,573,227.05</u> | <u>\$ (4,575,749.01)</u> | <u>474,661.26</u> |
| | | Add: 2012 Tax Levy | | <u>4,581,605.98</u> |
| | | | | <u>\$ 5,056,267.24</u> |

*Taxes become delinquent in March of the year following the tax year of levy. Delinquent taxes are turned over to the County Clerk and Master for collection proceedings.

SCHEDULE OF TAX RATES AND ASSESSMENTS

| Year | Rate | Valuations | Assessment |
|------|--------|-------------|--------------|
| 2012 | 2.2999 | 190,954,294 | 4,391,758.88 |
| 2011 | 2.2999 | 190,664,264 | 4,385,088.35 |
| 2010 | 2.2999 | 191,649,581 | 4,407,749.61 |
| 2009 | 2.42 | 178,974,121 | 4,331,182.14 |
| 2008 | 2.42 | 170,798,164 | 4,133,323.84 |
| 2007 | 2.42 | 166,346,338 | 4,025,589.85 |
| 2006 | 2.62 | 159,593,260 | 4,181,351.68 |
| 2005 | 2.77 | 133,848,245 | 3,707,601.39 |
| 2004 | 2.77 | 128,070,916 | 3,547,569.52 |
| 2003 | 2.77 | 127,478,345 | 3,531,154.99 |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012**

SCHEDULE OF PRINCIPAL OFFICIALS' SALARIES AND SURETY BONDS

| <u>Official Title</u> | <u>Base Annual Salary</u> | Surety Bond |
|-----------------------|---------------------------|-------------|
| Mayor | \$9,600 | (1) |
| Alder(wo)men | \$3,000 | (1) |

(1)Public officials covered under City Errors and Omissions policy - \$1,000,000, and \$2,500 deductible each occurrence.

CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012

SCHEDULE OF INSURANCE COVERAGE IN FORCE

| <u>Insurer Risk Covered</u> | <u>Amount of Coverage</u> |
|--|---------------------------|
| <u>Property coverage</u> | |
| Builders and personal property – per schedule | Blanket |
| Contractors equipment (\$1,000 deductible) | \$ 500,000 |
| Equipment media/Software (\$250 deductible) | \$ 1,000,000 |
| <u>Automatic coverage</u> | |
| Extra expense – per occurrence | \$ 5,000,000 |
| Valuable papers and records – per occurrence | \$ 1,000,000 |
| Flood “Zone A” – pool aggregate (\$1,000 deductible) | \$ 1,000,000 |
| Flood and surface water – pool aggregate (\$1,000 deductible) | \$ 25,000,000 |
| Earthquake – pool aggregate (\$1,000 deductible) | \$ 25,000,000 |
| Property in transit | \$ 100,000 |
| Fine arts | \$ 500,000 |
| New construction – Builders’ risk | \$ 500,000 |
| Pollution clean-up and removal | \$ 25,000 |
| <u>Crime coverage</u> | |
| Fidelity – each loss | \$ 150,000 |
| Loss inside/loss outside – each loss | \$ 150,000 |
| Money orders and counterfeit – each loss | \$ 150,000 |
| Depositors forgery – each loss | \$ 150,000 |
| Deductible | \$ 500 |
| <u>Worker’s compensation and employer’s liability</u> | |
| Bodily injury by accident – each accident | \$ 1,000,000 |
| Bodily injury by disease – policy limit | \$ 1,000,000 |
| Bodily injury by disease – each employee | \$ 1,000,000 |
| <u>Public official errors and omissions</u> | |
| Limit per occurrence (\$2,500 deductible) | \$ 1,000,000 |
| <u>Employee benefits liability</u> | |
| Limit – each claim | \$ 1,000,000 |
| Per member annual aggregate | \$ 1,000,000 |
| <u>General liability coverage</u> | |
| Bodily injury and property damage – general aggregate | No aggregate limit |
| Bodily injury and property damage – each occurrence | \$ 1,000,000 |
| Products/Completed operations aggregate | No aggregate limit |
| Personal and advertising injury – no aggregate | \$ 1,000,000 |
| Damage to premises rented to you | Policy limit |
| Medical expense | Legal liability only |
| Law enforcement liability – each occurrence (\$2,500 deductible) | \$ 1,000,000 |
| <u>Automobile liability coverage</u> | |
| Bodily injury/Property damage – each occurrence | \$ 1,000,000 |
| Hired/Non-owned | \$ 1,000,000 |
| Medical payment – (\$5,000 per person) | \$ 100,000 |
| Comprehensive and collision deductible | \$ 1,000 |

(continued)

**CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012**

SCHEDULE OF INSURANCE COVERAGE IN FORCE (continued)

| | |
|--------------------------------------|---------------|
| <u>Boiler and machinery</u> | |
| Property damage (\$5,000 deductible) | \$ 21,448,443 |
| Expediting expense | \$ 500,000 |
| Spoilage damage | \$ 100,000 |
| Utility interruption damage | \$ 100,000 |
| Ordinance of law | \$ 500,000 |
| Ammonia contamination | \$ 500,000 |
| Hazardous substances | \$ 500,000 |
| Water damages | \$ 100,000 |
| Combined deductible | \$ 5,000 |

See Accompanying Independent Auditors' Report.

**CITY OF MANCHESTER, TENNESSEE
 OTHER SUPPLEMENTARY INFORMATION
 June 30, 2012**

SCHEDULE OF UTILITY STATISTICAL DATA

| | <u>Water</u> | <u>Sewer</u> |
|--|------------------|------------------|
| Within Corporate Limits: | | |
| Up to and including 2,000 gallons | \$7.81 Minimum | \$9.84 Minimum |
| Next 98,000 gallons | \$3.91/1000 gal. | \$4.92/1000 gal. |
| All over the next 100,000 gallons | \$3.91/1000 gal. | \$3.91/1000 gal. |
| Unmetered Residential Customers | | \$23.41 Minimum |
| Outside Corporate Limits: | | |
| One and one-half times inside rate - Industrial | | |
| Two times inside rate - Residential and commercial | | |
| <u>Water & Sewer Customers</u> | <u>Water</u> | <u>Sewer</u> |
| 6/30/2012 | 6,799 | 4,638 |

See Accompanying Independent Auditors' Report.

CITY OF MANCHESTER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
June 30, 2012

SCHEDULE OF CASH AND CASH EQUIVALENTS - BY DEPOSITORY - ALL FUNDS

| | First National | Coffee County | Peoples Bank & Trust | U. S. Bank | First Vision | Regions Bank | Other | Balance June 30, 2011 |
|------------------------------------|------------------------|----------------------|-------------------------|----------------|---------------------|--------------------|---------------------|--------------------------|
| Pooled Cash Account | | | | | | | | |
| Demand deposits accounts | \$ 8,041,749.68 | \$ 629,563.29 | \$ 1,496,080.20 | \$ 0.00 | \$ 1,100,193.71 | \$ 0.00 | \$ 1,050.00 | \$ 11,268,636.88 |
| | <u>8,041,749.68</u> | <u>629,563.29</u> | <u>1,496,080.20</u> | <u>0.00</u> | <u>1,100,193.71</u> | <u>0.00</u> | <u>0.00</u> | <u>11,268,636.88</u> |
| General Fund: | | | | | | | | |
| Demand deposit accounts | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 15,441.48 | 15,441.48 |
| | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>15,441.48</u> | <u>15,441.48</u> |
| General Purpose School Fund: | | | | | | | | |
| Cash on hand | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 50.00 | 50.00 |
| Total General Purpose School Fund | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>50.00</u> | <u>50.00</u> |
| Recreation Fund | | | | | | | | |
| Cash on hand | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 750.00 | 750.00 |
| Demand deposits accounts | 0.00 | 0.00 | 194,731.15 | 0.00 | 0.00 | 0.00 | 0.00 | 194,731.15 |
| Total Recreation Fund | <u>0.00</u> | <u>0.00</u> | <u>194,731.15</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>750.00</u> | <u>195,481.15</u> |
| Other School Special Revenue Funds | | | | | | | | |
| Demand deposit | 0.00 | 272,446.29 | 0.00 | 0.00 | 0.00 | 0.00 | 714.29 | 273,160.58 |
| | <u>0.00</u> | <u>272,446.29</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>714.29</u> | <u>273,160.58</u> |
| Water & Sewer Fund: | | | | | | | | |
| Cash on hand | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,100.00 | 1,100.00 |
| Demand deposits | 325.67 | 0.00 | 1,159,360.56 | 0.03 | 0.00 | 4,859.06 | 4,096.19 | 1,168,641.51 |
| Total Water and Sewer Fund | <u>325.67</u> | <u>0.00</u> | <u>1,159,360.56</u> | <u>0.03</u> | <u>0.00</u> | <u>4,859.06</u> | <u>5,196.19</u> | <u>1,169,741.51</u> |
| Total Cash and Equivalents | <u>\$ 8,042,075.35</u> | <u>\$ 902,009.58</u> | <u>\$ 2,850,171.91</u> | <u>\$ 0.03</u> | <u>1,100,193.71</u> | <u>\$ 4,859.06</u> | <u>\$ 22,151.96</u> | <u>\$ 12,922,511.60</u> |

See Accompanying Independent Auditors' Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Tennessee Society of CPA's,
Association of Government Accountants

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 Board of Aldermen
of the City of Manchester, Tennessee

We have audited 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, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the City of Manchester, Tennessee's basic financial statements and have issued a report thereon dated March 26, 2013. The report was adverse because we found a fundamental lack of internal control over assets, particularly in relation to the recording of assets acquired as donations from the United States Department of Defense surplus programs. During our audit, we also found unrecorded bank accounts held by the police and fire departments, the majority of activity in those accounts being undocumented. We also found evidence that certain fundraisers were held in the City's name, the proceeds of which were not able to be identified in any deposits recorded in City accounts. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [12-01, 12-02, 12-03, and 12-04].

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies [06-11].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manchester, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs at items [06-01, 06-06, 07-01, 11-01, 11-04, and 11-02].

The City of Manchester, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Manchester, Tennessee's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in cursive script that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in dark ink and is positioned above the typed name of the firm.

Bean, Rhoton & Kelley, PLLC
Winchester, TN
March 26, 2013

BEAN, RHOTON & KELLEY, PLLC

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Board of Aldermen
of the City of Manchester, Tennessee

Compliance

We have audited the City of Manchester, Tennessee's compliance with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Manchester, Tennessee's major federal programs for the year ended June 30, 2012. The City of Manchester, Tennessee's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Manchester, Tennessee's management. Our responsibility is to express an opinion on the City of Manchester, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Manchester, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Manchester, Tennessee's compliance with those requirements.

In our opinion, the City of Manchester, Tennessee, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

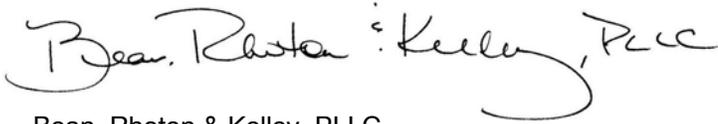
Management of City of Manchester, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Manchester, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Manchester, Tennessee's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A

material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the State Comptroller's Office, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bean, Rhoton & Kelley, PLLC". The signature is written in dark ink and is positioned above the typed name of the firm.

Bean, Rhoton & Kelley, PLLC
Winchester, TN
March 26, 2013

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

I. Summary of Auditors' Results

- A. The June 30, 2012 Auditors' Report on the Financial Statements was adverse due to a fundamental lack of internal control over assets, particularly in relation to the recording of assets acquired as donations from the United States Department of Defense surplus programs, as well as undocumented bank accounts and fundraising activities.
- B. A significant deficiency in internal control was disclosed by the audit and is discussed in finding 06-11.
- C. Findings 12-01, 12-02, 12-03, and 12-04 are considered material weaknesses.
- D. Instances of noncompliance were disclosed by the audit and are discussed below in findings 06-01, 06-06, 07-01, 11-01, 11-04, and 11-02.
- E. The report on compliance for major programs was an unqualified opinion.
- F. There were no findings required to be reported under 510(a).
- G. Major Programs - USDA Lunch Program, CFDA #10.555; USDA Breakfast Program, CFDA #10.553; United States Department of Education Special Education to the States, CFDA #84.027, 84.391 and 84.392; and USDA Water and Waste Disposal for Rural Communities, CFDA #10.781.
- H. Type A programs have been distinguished as those programs or clusters of programs with expenditures greater than \$300,000.
- I. The City of Manchester was not considered to be a low risk auditee.

II. Findings Related to the Financial Statements, which are required to be reported in accordance with *Government Auditing Standards*.

(06-01) Incomplete or missing expenditure documentation

During our audit, we found several expenditures for which documentation was incomplete or missing in its entirety. Missing documents included invoices, statements, approved requisition orders, and copies of cancelled checks. Additionally, many disbursements were supported by monthly statements that did not reconcile either to the invoices attached or to the amount actually paid to the vendor.

Recommendation:

The Internal Control and Compliance Manual for Tennessee Municipalities states that supporting documentation, such as invoices, receiving reports (signed), and other documents, must be obtained for all purchases. They should be attached together and filed in such a way that they can be easily found for future reference and audit. Each invoice should be stamped, perforated, or otherwise marked as paid when each check is written. Disbursements should always be paid from the original invoice, and payment from a statement alone is insufficient. Disbursements should be approved by the head of each department.

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2012

(06-01) Incomplete or missing expenditure documentation (continued)

City's Comment:

The City has implemented policies and procedures that require supporting documentation on all invoices, approved first by the department or their assistant, and approved by the Finance Director prior to being submitted for payments. When an invoice is ready for payment, the department head or their assistant is required to submit the invoice, attach a signed packing slip if provided and a signed check requisition form approving the invoice for payment. The amount requested is checked to make sure that requisition form is the same amount as the invoice. The Finance Director approves all invoices and reviews all checks before they are mailed or released. A copy of the check is attached to the invoice and stamped "paid." It is then filed in numerical order for easy access until the end of the fiscal year.

Disposition:

As of June 30, 2012, this problem continues to exist.

(06-02) Sales tax paid

During the course of the audit, it was noted that sales tax was being paid on some expenditures.

Disposition:

As of June 30, 2012, this problem no longer exists.

(06-06) Improper and incomplete requisition forms

During our review, we found requisition forms which were not filled out properly or incomplete. In many instances, requisition forms were found to be completed or altered after the purchase.

Recommendation:

Requisitions are to be filled out and approved before the purchase of any goods. Forms should be fully completed and approved by the department head. Distribution accounts should be determined by the department head. Forms should also have a summary of the items and cost of those items listed. A separate requisition form should be filled out and approved for each purchase.

City's Comment:

The City has implemented a strict policy regarding the purchasing of goods. The requisitions must be filed out completely and approved by the department head or their assistant prior to the purchase. The account(s) must be determined and recorded on the requisition form before submitting it to the Finance Department for approval. All items and costs must be listed on the requisition form so that it matches the invoice. A separate requisition is required for each purchase.

Disposition:

As of June 30, 2012, this problem continues to exist.

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2012

(06-11) Proper segregation of duties

In our review of the overall accounting controls of the City's accounting system, we found several areas where proper segregation of duties might be obtained.

Recommendation:

Because of the number of office employees working for the City, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the City's accounting system. However, management should consider a thorough study of the internal control aspect of the accounting system. Certain additional procedures and segregation of proper duties should increase the control over the assets.

City's Comment:

Although this problem was still in existence, we are continuing to work to improve the segregation of duties without compromising internal controls.

Disposition:

As of June 30, 2012, this problem continues to exist.

(07-01) Checks not voided properly

During our audit, we found that checks were not being voided properly.

Recommendation:

All voided checks should have the signature lines removed and the voided check should be marked "void" and stapled to the check stub. In addition, measures should be taken to ensure the check is properly voided in the accounting system.

City's Comment:

Every effort is being made to reinforce the proper procedure of voiding checks in order to comply with the Internal Control and Compliance Manual for Tennessee Municipalities. This procedure has been reviewed with proper personnel to ensure that the signature lines are removed and the voided checks are properly marked and stapled to the check stub. Once this has been completed, the voided checks are properly voided in the accounting system.

Disposition:

As of June 30, 2012, this problem continues to exist.

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2012

(11-01) Fund Deficit

As of June 30, 2012, there is a fund deficit in the Recreation Fund.

Recommendation:

State law requires that municipalities maintain self-supporting funds. Efforts need to be made by the Board to create a positive fund balance in these funds.

City's Comment:

The City understands the law requires that municipalities maintain self-supporting funds. The City also realizes that the Recreation Fund inadvertently closed the fiscal year with a deficit balance. The Board has authorized funds to be transferred to the Recreation Fund in the next budget year to eliminate the deficit and create a positive fund balance in this fund.

Disposition:

As of June 30, 2012, this problem continues to exist. In addition, at June 30, 2012, there is a fund deficit in the School Federal Projects Fund.

(11-02) Violation of the Three Day Banking Law

Deposits are not always being made within three days of receipt. This includes not only regular deposits related to the normal course of City operations, but also cash seized during arrests.

Recommendation:

All collections of cash must be deposited to an official bank within three days of collection. One purpose of this rule is to minimize losses from theft, resulting from break-ins or misplaced cash. Cash seized should be deposited at the bank within three days of seizure, rather than when awarded by the court, unless specifically instructed by the court.

City's Comment:

The City is aware that all collections of cash must be deposited to an official bank within three banking days of collection. The City has strengthened its internal controls to assure that all monies are being properly deposited according to State law. In the past, seized cash was being held until it was awarded by the court. That policy has been changed so that seized cash is being deposited immediately upon seizure.

Disposition:

As of June 30, 2012, this problem still exists.

(11-03) Reimbursements

During our audit, it was noted that reimbursements from advances are not being returned in a timely manner.

Disposition:

As of June 30, 2012, this problem no longer exists.

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2012

(11-04) Donations

Supporting documentation was not found for some allocations made to non-profit entities.

Recommendation:

Section 6-54-111 of the Tennessee Code Annotated places certain requirements upon cities and non-profit organizations in connection with appropriations by cities to non-profit organizations. This law requires that officials require each non-profit organization receiving financial assistance from the municipality to file with the city clerk an annual report, which includes, but is not limited to, a copy of an annual audit, the organization's program and the proposed use of the municipal assistance.

City's Comment:

The City realizes that in order to comply with Section 6-54-111 Tennessee Code Annotated, before appropriations are processed to a non-profit organization, the City must have an annual report, which includes but is not limited to a copy of an annual audit, the organization's program and proposed use of the municipal assistance. The City will be more cognizant of future appropriations to non-profit organizations in making sure that all necessary information is submitted to the City prior to processing any appropriations.

Disposition:

As of June 30, 2012, this problem still exists.

(12-01) Lack of Control over Assets Received from the Department of Defense Surplus Program

Audit testing and inquiries in relation to control over fixed assets revealed a fundamental lack of control over fixed assets, in particular in relation to the acquisition, use and disposal of assets and supplies obtained through the Department of Defense Law Enforcement Support Office (LESO) surplus program. While we were able to physically observe and trace some of the assets received, we were unable to completely reconcile assets received as per confirmations with the Department of Defense to the asset activity recorded on the City's fixed asset listing and other financial information. Estimated values obtained from the Department of Defense total in excess of \$600,000 for the assets and supplies the City received during the year ended June 30, 2012.

Recommendation:

The City should prepare an inventory accounting for all assets held by the City. Any material differences between the current listing and the actual inventory should be reconciled to available receipt and disposal records. The City should also review the internal control system regarding fixed assets, identifying deficiencies and making changes to the policies as deemed necessary.

City's Comment:

We concur with the finding and are currently reviewing procedures to ensure that this issue is corrected.

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2012

(12-02) Unrecorded bank accounts

We found funds held by the police and fire departments which were not previously recorded with other City financial information. During the audit period, both accounts were held in the federal identification number of the City of Manchester. Information regarding these accounts is summarized in the following paragraphs:

Police Department.

The police department was found to have possession of a passbook savings account with a balance at June 30, 2012 of \$8,166.56. Between July 1, 2011 and June 30, 2012, \$23,325 was deposited into the account and \$20,376 in cash was withdrawn by authorized signors on the account. At the time of the audit, no documentation was available to determine or support as to how these withdrawals were spent. Therefore, we were unable to determine if the activities recorded were legitimate police department activities. Regarding the monies deposited, approximately \$2,600 was determined to be payroll deductions. However, the source of the remaining \$20,725 in deposits was undeterminable.

Fire Department.

The fire department was found to have possession of a checking account with a balance at June 30, 2012 of \$7,275. Between July 1, 2011 and June 30, 2012, \$13,739 was deposited into the account and checks totaling \$10,424 were written. At the time of the audit, no documentation other than copies of cancelled checks and a checkbook register were available to confirm how these withdrawals were spent. Therefore, we were unable to determine if the activities recorded were legitimate fire department activities. Register summaries indicate activities, which include a chili cook-off, seasonal activities held for the public, donations and purchases of Christmas gifts. Regarding the monies deposited, approximately \$3,800 was determined to be payroll deductions. The register indicated other sources of income to be calendar sales, chili cook-off revenue and donations. These were also unable to be confirmed.

Recommendation:

The Internal Control And Compliance Manual For Tennessee Municipalities states that municipal officials should ensure that a management level employee periodically reviews bank statements and the related reconciliations to determine that they are accurate and all activity is authorized and properly recorded. All money should be disbursed by pre-numbered checks. Checks must not be signed in advance of their preparation and issuance. Checks must not be made payable to "Cash" or "Bank" if intended for cash. All bank accounts in the City's possession should be made available during the audit.

City's Comment:

We concur with the finding and are currently reviewing procedures to ensure that this issue is corrected.

(12-03) Fundraising Activities

During our audit, we found evidence of certain fundraisers held in the name of the City of Manchester. These fundraisers included seasonal cruise-in's, department calendar sales, a police golf tournament, and charity fundraising for certain individuals. No reconciliations or other documentation were available to determine amounts collected or disbursed for these events. No income was found deposited in the City's financial records, which could be attributed to these events. There were certain fundraising related expenditures found which were paid out of City funds, primarily from the Community Policing Fund. These expenditures included items such as televisions, admission tickets, drinks, and various car-cleaning supplies.

In addition, promotional flyers acquired during our audit indicated that some of the fundraisers were held to raise monies for specific activities, such as toys for needy children. Because of the lack of supporting documentation, it was undeterminable as to whether funds were spent in the manner in which donors and participants were told.

CITY OF MANCHESTER, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
June 30, 2012

(12-03) Fundraising Activities (continued)

Also, in our review of promotional flyers, we observed the advertisement of “50/50” drawings. Any game of chance, including, but not limited to raffles, is illegal in the State of Tennessee unless prior approval is received in advance through the Tennessee Division of Charitable Solicitations.

Recommendation:

Any activities hosted or conducted in the name of the City of Manchester must follow all compliance and internal control procedures as set forth by policies of the City of Manchester and the State of Tennessee. Section 6-56-112, Tennessee Code Annotated, states, “All expenditures of money made by a municipality must be made for a lawful municipal purpose.” It is the responsibility of the Mayor and Board of Alderman to ensure that city staff uses taxpayer funds prudently and sensibly. Should funds be raised for a particular cause or event, all monies should be tracked to ensure that any donations or monies raised were appropriately used as intended. All monies should be deposited intact into City funds. At no time should the City engage or promote illegal activities.

City’s Comment:

We concur with the finding and are currently reviewing procedures to ensure that this issue is corrected.

(12-04) Excess Food Purchases

During our audit, testing revealed food purchases in excess of \$10,000 paid for from the Community Policing Fund for food apparently purchased for employee meals, the purpose of which was not associated with a particular necessity or event. Section 6-56-112, Tennessee Code Annotated, states, “All expenditures of money made by a municipality must be made for a lawful municipal purpose.” It is the responsibility of the Mayor and Board of Alderman to ensure that City staff uses taxpayer funds prudently and sensibly. It is difficult to identify a benefit to the City from paying for regular meals for employees.

Recommendation:

Officials should ensure that personnel or officials receiving goods or services purchased by the municipality sign delivery receipts, invoices, or other supporting documentation to verify that items and services for which the municipality has been billed have actually been received and accepted. The documentation should be sufficient to determine that the expenditure was for a municipal purpose. Expenditures for food, mileage, etc., generally will require additional notations to indicate the purpose, date and any other pertinent information regarding expenditures for such items.

City’s Comment:

We concur with the finding and are currently reviewing procedures to ensure that this issue is corrected.