

**CITY OF MANCHESTER, TENNESSEE
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018**

**CITY OF MANCHESTER, TENNESSEE
FINANCIAL REPORT
For the Year Ended June 30, 2018**

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INTRODUCTORY SECTION

**OFFICIALS OF THE
CITY OF MANCHESTER, TENNESSEE
JUNE 30, 2018**

OFFICIALS

Board of Mayor and Aldermen

Lonnie Norman, Mayor

Ryan French, Vice Mayor

Chris Elam, Alderman

Tim Kilgore, Alderman

Bob Bellamy, Alderman

Lana Sain, Alderwoman

Cheryl Swan, Alderwoman

Manchester City School Board

Mike Lewis, Chairman

Susan Parsley, Member

Lisa Gregory, Member

Travis Hillis, Member

Susan Wood, Member

Appointed Officials

Bridget Anderson, CMFO, Finance Director

Mark Yother, Chief of Police

George Chambers, Fire Chief

Bryan Pennington, Director of Water and Sewer

Bonnie Gamble, Director of Parks & Recreation

Brent Carter, Director of Public Works

Jamie Sain, Director of Building and Codes

Lee Wilkerson, Director of Schools

FINANCIAL SECTION

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Tullahoma, Tennessee

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund, general purpose school fund, and debt service fund, and the aggregate remaining fund information of the City of Manchester, Tennessee, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

603 NW Atlantic Street, Tullahoma, Tennessee 37388

Phone (931) 393-3307

Fax (931) 563-5585

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund, general purpose school fund, and debt service fund, and the aggregate remaining fund information of the City of Manchester, Tennessee as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

The City of Manchester, Tennessee has adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents 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 the financial reporting for placing basic financial statements, in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules, supplementary and other information sections as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary comparison schedules and the schedule of expenditures of federal and state awards, schedules of principal and interest requirements for governmental and enterprise funds, and schedule of assessed property values, property tax rates and changes in property taxes receivable are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards and state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and other information section listed in the table of contents as schedule of transfers, schedule of utility rate structure and number of customers, and schedules of water loss and performance indicators (AWWA reports), and management's corrective action plan have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Manchester, Tennessee's internal control over financial reporting and compliance.

MG Group, P.C.

Tullahoma, Tennessee
December 27, 2018

Management's Discussion and Analysis

As management of the City of Manchester, Tennessee (the City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the City.

Financial Highlights:

- The assets of the City of Manchester exceeded its liabilities at the close of the most recent year by \$47,992,199. Of this amount, \$25,723,941 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Recreation Center received a grant from Bonnaroo Works Fund towards an outdoor movie cinema in the amount of \$7,000.
- The City of Manchester received approval for the Interstate Drive Widening Project where the City's portion will be 20% of the project.
- The City of Manchester received a grant from TDEC for a Site Development Project in the amount of \$51,048.79.
- The City of Manchester received approval for a Signalization Project through TDOT.
- The Recreation Center received a LPRF grant that will extend the greenway to Bonnaroo.
- The Recreation Center also received a Soccer Grant to help improve the Soccer Fields.
- The City of Manchester Police Department also received a grant from the Governor's Highway Safety Office.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,895,495.
- The Government Accounting Standards Board issued Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions. The implementation date for this standard is for periods beginning after June 15, 2010, which means FYE June 30, 2011. Governmental accounting standards now require the reporting of five classifications of fund balance: Non-Spendable, Restricted, Committed, Assigned and Unassigned. The City's audited financial statement addresses four categories: Non-spendable \$114,051; Restricted \$1,391,668; Committed \$3,019,709; Assigned \$1,000,440; and Unassigned \$11,369,627. The Unassigned Fund Balance is available for spending at the government's discretion.

Management's Discussion and Analysis

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Manchester's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected tax and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Manchester include general government, public works, public safety, state street aid, public welfare and recreation and schools. The business-type activities of the City include Water and Sewer services.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund Financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Manchester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are funds used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at

Management's Discussion and Analysis

the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may be better to understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General Purpose School Fund, and Debt Service Fund which are considered to be major funds. Data for the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements later in this report beginning on page 67.

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget, as well as for the non-major funds.

The basic governmental fund financial statements can be found on pages 16-23 of this report.

Proprietary Funds – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented in the business-type activities in the governmental-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for Water and Sewer operations which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-58 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the City's and Manchester City Schools' pension cost and other postemployment benefits. Pages 59-66.

Management's Discussion and Analysis

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to financial statements. Combining and individual fund statements and schedules can be found beginning on page 67 of this report.

Financial Analysis of the Financial Statements

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Manchester, assets exceeded liabilities by \$47,992,199 at the close of this fiscal year.

By far the largest portion of the City's assets (43.50%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Manchester's Net Position

	Governmental 2018	Activities 2017	Business type 2018	Activities 2017
Current and other assets	\$23,419,054	\$21,815,440	\$18,696,450	\$18,869,490
Capital Assets	29,012,806	29,323,333	33,215,090	34,384,697
Total Assets	52,431,860	51,138,773	51,911,540	53,254,187
Long-term liabilities outstanding	19,499,417	21,119,592	25,785,801	27,325,674
Other Liabilities	10,527,362	12,115,450	2,649,459	2,653,477
Total Liabilities	30,026,779	33,235,042	28,435,260	29,979,151
Net Position				
Net Investment in Capital Assets	8,715,884	8,397,857	12,160,706	14,649,743
Restricted	1,391,668	1,311,450	0	180,614
Unrestricted	14,347,382	10,981,532	11,376,559	8,510,242
Total net position	\$24,454,934	\$20,690,839	\$23,537,265	\$23,340,599

Management's Discussion and Analysis

Changes in net position. Governmental activities increased the City's net position by \$3,764,095. Business-type activities net position increased by \$196,666.

The table below provides a summary of the City's net assets broken down by governmental and business-type activities.

City of Manchester's Changes in Net Position

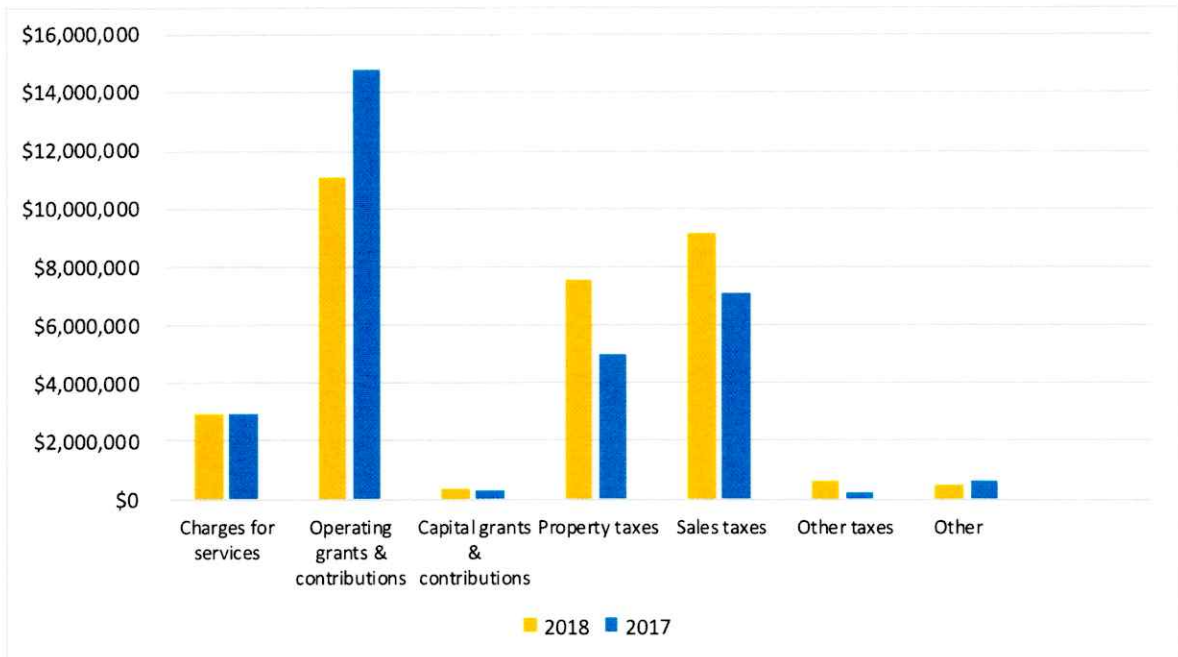
	Governmental Activities		Business-type Activities	
<u>Revenues</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<u>Program revenues</u>				
Charges for services	\$2,941,271	\$2,894,762	\$6,178,634	\$6,119,358
Operating grants and contributions	11,078,990	14,802,386	17,400	17,400
Capital grants and contributions	319,461	269,276		
 <u>General Revenues</u>				
Property taxes	7,586,795	4,939,714		
Sales taxes	9,165,602	7,066,889		
Other taxes	617,148	211,308		
Other	451,356	576,355	132,896	1,676,213
Total revenues	\$32,160,623	\$30,760,690	\$6,328,930	\$7,812,971
 <u>Governmental Activities</u>				
General Government	\$1,338,103	\$1,296,340		
Public Safety	4,672,766	4,606,756		
Public Works	2,597,704	2,970,253		
Health, Welfare, Culture and Recreation	2,460,400	2,335,143		
Economic Development and Assistance	135,429	91,858		
Education	15,502,842	15,632,688		
Debt Service	1,689,284	787,190		
Water & Sewer			6,156,142	6,202,644
Total expenses	\$28,396,528	27,720,228	\$6,156,142	\$6,202,644

Management's Discussion and Analysis

Change in Net Position	3,764,095	3,040,462	172,788	1,610,327
Net Position, as previously reported	20,690,839	17,650,377	23,340,599	20,958,764
Restatement from prior year			23,878	771,508
Net Position, beg. Of year as restated				
Net Position, end of year	<u>\$24,454,934</u>	<u>\$20,690,839</u>	<u>\$23,537,265</u>	<u>\$23,340,599</u>

Revenues by Source – Governmental Activities

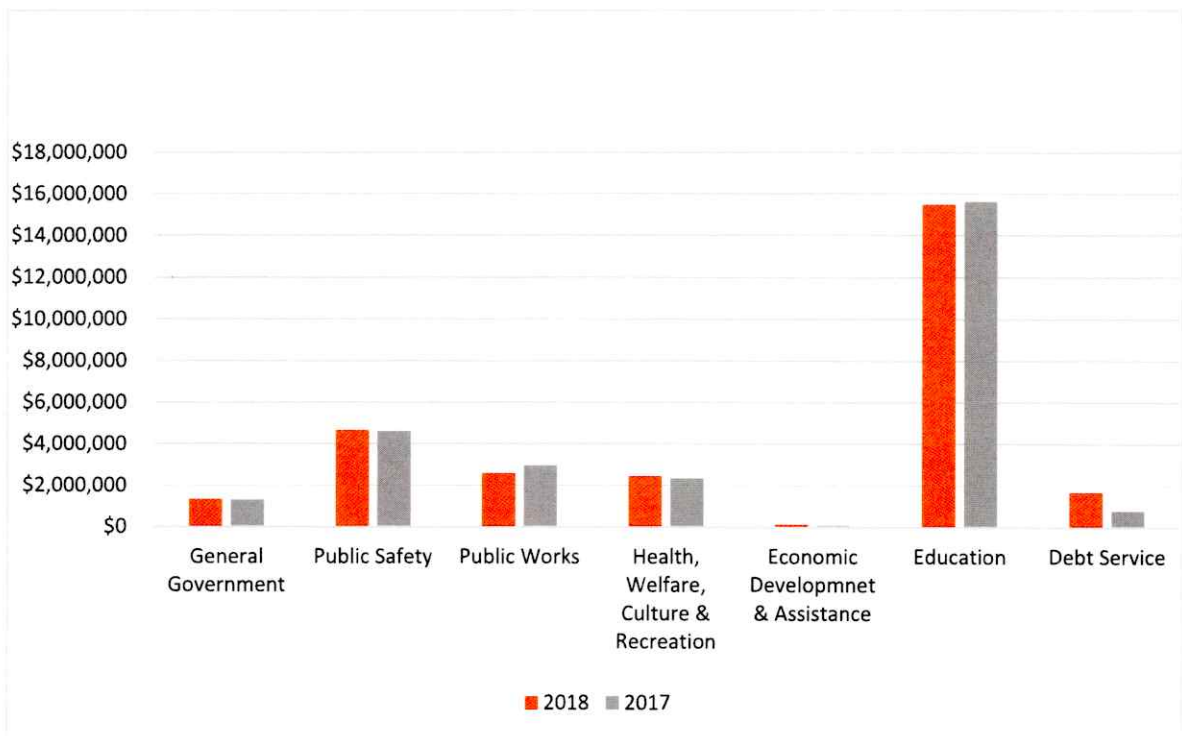
Revenues



Management's Discussion and Analysis

Expenditures – Governmental Activities

Expenditures



Significant variances in Governmental Activities revenues and expenditures from that of the prior year were as follows:

- The overall expenditures increased by approximately \$676,300. The increase is due to equipment purchases and education expenditures.
- Education expenditures decreased by \$129,846 due to conservative spending.

Management's Discussion and Analysis

Business-type Activities

Business-type activities accounted for revenue of \$6,366,952 which includes contributed capital.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Manchester's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,895,495, an increase of \$2,158,287 in comparison with the prior year. Within the governmental funds, \$88,362 is restricted for Inventory and Prepaid Costs in the General Fund. In the General Purpose School Fund, \$0 is committed for Non-Instructional Services.

The general fund is the chief operation fund of the City of Manchester, Tennessee. Due to the compliance of GASB 54, the general fund recognizes "unassigned" fund balance instead of "unreserved" fund balance. At the end of this fiscal year, this amount is \$6,253,411. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 96.0% of total general fund expenditures.

The City's general fund had a positive Net Change in Fund Balance of \$71,446.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted Net Assets at the end of the year for the Water and Sewer Fund amounted to \$11,376,559. This represents total Net Assets at June 30, 2018 of \$23,537,265.

Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were as follows: changes to revenues were as follows: General Fund – decrease of \$304,369; General Purpose School Fund – increase of \$525,957; School Federal and State Programs – increase of \$134,074; changes to appropriations of General Fund - decrease of \$695,084; General Purpose School Fund – increase of \$564,957; School Federal and State Programs – increase of \$134,074.

Specific Revenue increases for the General Fund and General Purpose School Fund were as follows:

General Fund	Budgeted Amounts	
	Original	Final
Revenues:		
Total Taxes Revenue	\$ 10,481,205	\$10,481,205
General Purpose School Fund:		
Revenues	\$ 12,147,398	\$12,673,355
Operating Transfer-General Fund	\$ 1,678,467	\$1,858,467

Capital Assets

The City of Manchester's investment in capital assets from its governmental and business-type activities at June 30, 2018, amounts to \$62,227,896 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total of the City's investment in capital assets for the current fiscal year decreased in the amount of \$1,480,136 (a net decrease of \$310,528 for governmental activities and a net decrease of \$1,169,608 for business-type activities).

City of Manchester's Capital Assets

	Governmental Activities	Business-type Activities	Total
Land	\$ 4,710,363	\$ 210,937	\$ 4,921,300
Buildings/land improvement	27,741,381	398,600	28,139,981
Machinery and Equipment	7,232,110	1,410,339	8,642,449
Infrastructure	26,971,053	53,607,306	80,578,359
Construction in progress	259,919	136,134	396,053
	66,914,826	55,763,316	122,678,142
Less Accumulated Depreciation	37,902,020	22,548,226	60,450,246
Net Capital Assets	\$29,012,806	\$33,215,090	\$62,227,896

Management's Discussion and Analysis

Additional information on the City of Manchester's capital assets can be found in the notes to the financial statements section of this report.

Long-term Debt

At the end of the current year, the City of Manchester had bonded debt outstanding of \$47,421,255. Of this amount, \$2,210,454 is due in the next fiscal year.

City of Manchester's Outstanding Debt

	Governmental Activities	Business-type Activities	Total
Principal due in the next fiscal year	\$ 670,626	1,539,828	<u>2,210,454</u>

The City of Manchester's combined total bonded debt decreased in the amount of \$2,199,158 during the current fiscal year.

Additional information on the City of Manchester's debt can be found in the notes to the financial statements section of this report.

Currently Known Factors Affecting Future Years

The unemployment rate for the Coffee County at the end of the fiscal year was 3.0%. This compares to the State's average unemployment rate of 3.5% and the national average rate of 4.0%. Due to the economic situation, the City used the conservative approach in the preparation of next year's budget. Property tax collection and local option sales tax were increased slightly.

Requests for Information

This financial report is designed to provide a general overview of the City of Manchester, Tennessee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director/Chief Financial Officer, 200 West Fort Street, Manchester, TN 37355.

BASIC FINANCIAL STATEMENTS

City of Manchester, Tennessee
Statement of Net Position
June 30, 2018

	<u>Primary Government</u>		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Investment in pooled cash	\$ 14,327,879	\$ 3,498,476	\$ 17,826,355
Cash	603,124	5,784,461	6,387,585
Receivables			
Property taxes	5,128,835	-	5,128,835
Customers	-	413,987	413,987
Other	423,777	-	423,777
Less allowance for doubtful accounts	(138,316)	(39,073)	(177,389)
Due from other governments	2,627,092	-	2,627,092
Internal balances	87,600	(87,600)	-
Prepaid items	19,248	-	19,248
Unbilled water and sewer	-	123,340	123,340
Notes receivable - DRUC	-	8,770,000	8,770,000
Inventories	114,051	196,936	310,987
Capital assets, not being depreciated	4,970,282	347,071	5,317,353
Capital assets, being depreciated, net	24,042,524	32,868,019	56,910,543
Net pension asset	225,764	35,923	261,687
Total assets	52,431,860	51,911,540	104,343,400
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	2,049,367	60,985	2,110,352
Related to OPEB	486	-	486
Total deferred outflows of resources	2,049,853	60,985	2,110,838
LIABILITIES			
Accounts payable and accrued liabilities	240,433	206,058	446,491
Accrued payroll	574,597	26,133	600,730
Accrued interest payable	64,337	43,327	107,664
Other payables	218,626	15,790	234,416
Due to other governments	2,701	-	2,701
Customer deposits	-	403,106	403,106
Unearned revenue	133,414	-	133,414
Noncurrent liabilities:			
Compensated absences	1,862,262	337,514	2,199,776
Due within one year	716,436	1,539,828	2,256,264
Due in more than one year	19,499,417	25,785,801	45,285,218
Net OPEB liability	214,402	-	214,402
Total liabilities	23,526,625	28,357,557	51,884,182
DEFERRED INFLOWS OF RESOURCES			
Assessed & unlevied property taxes	5,128,024	-	5,128,024
Related to debt	16,732	67,125	83,857
Related to pensions	1,343,053	10,578	1,353,631
Related to OPEB	12,345	-	12,345
Total deferred inflows of resources	6,500,154	77,703	6,577,857
NET POSITION			
Net investment in capital assets	8,715,884	12,160,706	20,876,590
Restricted for:			
Net pension asset	225,764	35,923	261,687
Drug control and investigation	584,820	-	584,820
Education	806,848	-	806,848
Unrestricted	14,121,618	11,340,636	25,462,254
Total net position	\$ 24,454,934	\$ 23,537,265	\$ 47,992,199

See notes to the financial statements.

City of Manchester, Tennessee
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges	Operating	Capital	Governmental	Business-type	Total
		for	Grants and	Grants and			
	Services	Contributions	Contributions	Activities	Activities		
Primary Government:							
Governmental Activities:							
General government	\$ 1,338,103	\$ 109,939	\$ -	\$ 57,600	\$ (1,170,564)	\$ -	\$ (1,170,564)
Public safety	4,672,766	317,570	44,901	-	(4,310,295)	-	(4,310,295)
Public works	2,597,704	1,002,000	90,183	51,187	(1,454,334)	-	(1,454,334)
Health, welfare, and recreation	2,460,400	1,161,551	62,766	197,607	(1,038,476)	-	(1,038,476)
Economic development and assistance	135,429	-	-	13,067	(122,362)	-	(122,362)
Education	16,232,573	350,211	10,881,140	-	(5,001,222)	-	(5,001,222)
Debt Service	1,689,284	-	-	-	(1,689,284)	-	(1,689,284)
Total Governmental Activities	29,126,259	2,941,271	11,078,990	319,461	(14,786,537)	-	(14,786,537)
Business-type Activities:							
Water and Sewer	6,132,264	6,178,634	17,400	-	63,770	63,770	63,770
Total Primary Government	\$ 35,258,523	\$ 9,119,905	\$ 11,096,390	\$ 319,461	(14,786,537)	63,770	(14,722,767)
General revenues:							
Property taxes					7,366,492	-	7,366,492
Interest and penalty					87,663	-	87,663
In-lieu of tax					132,640	-	132,640
Licenses and Permits					178,724	-	178,724
Local option sales tax					6,128,344	-	6,128,344
Wholesale liquor and beer tax					695,343	-	695,343
Business, cable TV, and hotel occupancy taxes					1,461,943	-	1,461,943
Intergovernmental revenues:							
State sales tax					879,972	-	879,972
Other state revenue					617,148	-	617,148
Other revenue					163,031	64,879	227,910
Investment earnings and rental income					82,718	106,039	188,757
Gain (loss) on sale of capital assets					26,883	(38,022)	(11,139)
Total general revenues					17,820,901	132,896	17,953,797
Change in net position					3,034,364	196,666	3,231,030
Net position - beginning, as originally reported					20,690,839	23,340,599	44,031,438
Effect of change in accounting principle					729,731	-	729,731
Net position - beginning, as restated					21,420,570	23,340,599	44,761,169
Net position - ending					\$ 24,454,934	\$ 23,537,265	\$ 47,992,199

See notes to the financial statements.

City of Manchester, Tennessee
Balance Sheet
Governmental Funds
June 30, 2018

	General	General Purpose School	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Investment in pooled cash	\$ 5,303,723	\$ 4,834,332	\$ 2,595,826	\$ 1,593,998	\$ 14,327,879
Cash	-	-	-	603,124	603,124
Receivables					
Property taxes	5,128,835	-	-	-	5,128,835
Other	252,003	92,863	-	78,911	423,777
Less allowance for doubtful accounts	(138,316)	-	-	-	(138,316)
Due from other governments	1,132,131	1,466,948	-	28,013	2,627,092
Due from other funds	56,803	5,604	-	100,526	162,933
Prepaid items	16,124	3,124	-	-	19,248
Inventory	88,362	-	-	25,689	114,051
Total assets	\$ 11,839,665	\$ 6,402,871	\$ 2,595,826	\$ 2,430,261	\$ 23,268,623

	General	General Purpose School	Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES					
Accounts payable and accrued liabilities	\$ 174,155	\$ 24,672	\$ -	\$ 41,606	\$ 240,433
Accrued payroll	84,633	443,440	-	46,524	574,597
Other payables	102,777	-	-	55,916	158,693
Judgements payable	-	-	-	59,933	59,933
Due to other funds	5,604	31,463	-	38,266	75,333
Due to other governments	2,699	2	-	-	2,701
Unearned Revenues	-	-	-	133,414	133,414
Total liabilities	369,868	499,577	-	375,659	1,245,104

DEFERRED INFLOWS OF RESOURCES					
Assessed & unlevied property taxes	\$ 5,128,024	-	-	-	\$ 5,128,024
Total deferred inflows of resources	5,128,024	-	-	-	5,128,024

	General	General Purpose School	Debt Service	Other Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable	88,362	-	-	25,689	114,051
Restricted	-	363,195	-	1,028,473	1,391,668
Committed	-	423,883	2,595,826	-	3,019,709
Assigned	-	-	-	1,000,440	1,000,440
Unassigned	6,253,411	5,116,216	-	-	11,369,627
Total fund balances	6,341,773	5,903,294	2,595,826	2,054,602	16,895,495

Total liabilities, deferred inflows of resources and fund balances	\$ 11,839,665	\$ 6,402,871	\$ 2,595,826	\$ 2,430,261	\$ 23,268,623
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See notes to the financial statements.

City of Manchester, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Position
June 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - balance sheet - governmental funds		\$ 16,895,495
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Land	\$ 4,710,362	
Construction in Progress	259,920	
Land Improvements	209,043	
Buildings	13,033,013	
Vehicles	1,516,610	
Heavy Equipment	211,787	
Other Equipment	1,044,369	
Infrastructure	<u>8,027,702</u>	29,012,806
(2) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Accrued Interest Payable	(64,337)	
Accrued Vacation and Sick Leave	(1,862,262)	
Due Within One Year	(716,436)	
Due in More Than One Year	<u>(19,499,417)</u>	(22,142,452)
(3) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years.		
Deferred outflows of resources related to OPEB	486	
Deferred outflows of resources related to pensions	2,049,367	
Deferred inflows of resources related to OPEB	(12,345)	
Deferred inflows of resources related to pensions	(1,343,053)	
Deferred inflows of resources related to debt	<u>(16,732)</u>	677,723
(4) Total OPEB liabilities of the city agent plan are not current financial uses and are therefore not reported in the governmental funds		(214,402)
(5) Net pension assets of the city agent plan are not current financial uses and are therefore not reported in the governmental funds		<u>225,764</u>
Net position of governmental activities		<u>\$ 24,454,934</u>

See notes to the financial statements.

City of Manchester, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2018

	General	General Purpose School	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local taxes	\$ 10,913,372	\$ -	\$ -	\$ 401,790	\$ 11,315,162
Licenses and permits	178,055	-	-	-	178,055
Charges for services	33,821	149,192	-	2,451,108	2,634,121
Fines and forfeitures	245,659	-	-	59,491	305,150
Other local revenues	51,102	35,427	74,959	138,269	299,757
Intergovernmental	1,847,730	13,476,855	-	2,103,794	17,428,379
Total revenues	13,269,739	13,661,474	74,959	5,154,452	32,160,624
Expenditures					
General government	1,748,443	-	-	-	1,748,443
Public safety	4,491,598	-	-	184,714	4,676,312
Public works	2,056,492	-	-	1,358,906	3,415,398
Health, welfare, and recreation	244,891	-	-	2,166,066	2,410,957
Economic development and assistance	-	-	-	135,429	135,429
Education	-	13,954,371	-	1,963,088	15,917,459
Debt Service	-	-	1,691,266	-	1,691,266
Total expenditures	8,541,424	13,954,371	1,691,266	5,808,203	29,995,264
Excess (Deficiency) of Revenues over (under) Expenditures	4,728,315	(292,897)	(1,616,307)	(653,751)	2,165,360
Other Financing Sources (Uses)					
Transfers in	-	1,858,467	1,602,507	1,360,750	4,821,724
Transfers out	(4,656,869)	-	-	(164,855)	(4,821,724)
Total other financing sources and uses	(4,656,869)	1,858,467	1,602,507	1,195,895	-
Net change in fund balances	71,446	1,565,570	(13,800)	542,144	2,165,360
Fund balances - beginning	6,270,327	4,337,724	2,609,626	1,512,458	14,730,135
Fund balances - ending	\$ 6,341,773	\$ 5,903,294	\$ 2,595,826	\$ 2,054,602	\$ 16,895,495

See notes to the financial statements.

City of Manchester, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
June 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	2,165,360
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Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expenses. The difference between capital outlays and depreciation is itemized as follows:

Add: capital assets purchased in the current period	\$ 1,551,573	
Less: current-year depreciation expense	(1,593,169)	(41,596)

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.

Less: book value of capital assets disposed		(26,883)
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The issuance of long-term debt (e.g. bonds, notes, capitalized leases and other loans) 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 position. Also, governmental funds report the effect of premiums, discounts, and similar item when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the effect of these differences in the treatment of long-term debt and related items.

Add: principal payment on long-term debt	\$ 779,677	
Less: capitalized lease proceeds	(100,074)	679,603

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in accrued interest payable	\$ 1,975	
Change in compensated absences payable	(58,038)	
Change in net pension asset	299,523	
Change in deferred outflows of resources related to pensions	(737,741)	
Change in deferred inflows of resources related to pensions	98,954	
Change in deferred inflows of resources related to debt	880	
Change in other postemployment benefits liability	664,185	
Change in deferred outflows of resources related to OPEB	486	
Change in deferred inflows of resources related to OPEB	(12,345)	<u>257,879</u>

Change in net position of governmental activities	\$	<u>3,034,364</u>
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See notes to the financial statements.

City of Manchester, Tennessee
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Positive (Negative)
	Original	Final		Variance with Final
Revenues				
Local taxes	\$ 10,481,205	\$ 10,561,000	\$ 10,913,372	\$ 352,372
Licenses and permits	92,000	169,100	178,055	8,955
Charges for service	23,700	35,359	33,821	(1,538)
Fines and forfeitures	216,000	221,350	245,659	24,309
Other local revenues	105,500	105,866	51,102	(54,764)
Intergovernmental	2,295,521	1,896,677	1,847,730	(48,947)
Total revenues	13,213,926	12,989,352	13,269,739	280,387
Expenditures				
General Government				
City Court				
Contractual services	12,000	12,000	12,000	-
	12,000	12,000	12,000	-
Mayor and Aldermen				
Personnel expenditures	221,850	119,950	106,903	13,047
Contractual services	161,021	161,021	112,883	48,138
Supplies	9,000	9,000	5,260	3,740
Fixed charges	1,500	1,500	1,205	295
	393,371	291,471	226,251	65,220
Financial Administration				
Personnel expenditures	347,300	323,600	301,751	21,849
Contractual services	64,000	64,000	56,609	7,391
Supplies	13,000	18,287	13,563	4,724
Fixed charges	1,500	1,500	989	511
	425,800	407,387	372,912	34,475
Information Systems				
Personnel expenditures	85,760	87,160	87,102	58
Contractual services	29,820	28,820	18,787	10,033
Supplies	5,500	5,500	3,023	2,477
Fixed charges	500	500	-	500
Capital outlay	25,000	25,000	21,593	3,407
	146,580	146,980	130,505	16,475
Planning and Zoning				
Personnel expenditures	296,100	282,100	274,492	7,608
Contractual services	43,500	44,577	37,416	7,161
Supplies	8,800	8,800	4,788	4,012
Fixed charges	5,000	5,000	4,825	175
	353,400	340,477	321,521	18,956
General Government and Buildings				
Personnel expenditures	42,000	42,000	17,698	24,302
Contractual services	239,200	239,200	191,915	47,285
Supplies	5,000	5,000	4,653	347
Fixed charges	389,800	282,600	269,954	12,646
Capital outlay	748,574	290,437	201,034	89,403
	1,424,574	859,237	685,254	173,983
Total general government	2,755,725	2,057,552	1,748,443	309,109

See notes to the financial statements.

City of Manchester, Tennessee
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Continued)
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Positive (Negative) Variance with
	Original	Final		Final
Public Safety				
Police Department				
Personnel expenditures	2,302,500	2,305,500	2,298,482	7,018
Contractual services	65,750	67,372	55,461	11,911
Supplies	162,900	165,230	131,003	34,227
Fixed charges	2,000	2,000	497	1,503
Capital outlay	21,000	21,000	12,947	8,053
	<u>2,554,150</u>	<u>2,561,102</u>	<u>2,498,390</u>	<u>62,712</u>
Fire Department				
Personnel expenditures	1,857,250	1,872,250	1,842,036	30,214
Contractual services	65,590	63,795	57,897	5,898
Supplies	114,300	116,100	86,437	29,663
Fixed charges	13,800	13,800	6,838	6,962
	<u>2,050,940</u>	<u>2,065,945</u>	<u>1,993,208</u>	<u>72,737</u>
Total public safety	<u>4,605,090</u>	<u>4,627,047</u>	<u>4,491,598</u>	<u>135,449</u>
Public Works				
Public Works Department				
Personnel expenditures	1,087,700	1,106,700	1,083,836	22,864
Contractual services	410,950	410,950	331,723	79,227
Supplies	177,500	178,500	144,229	34,271
Building materials	60,000	60,000	55,168	4,832
Fixed charges	960	960	533	427
Capital outlay	525,000	526,132	441,003	85,129
	<u>2,262,110</u>	<u>2,283,242</u>	<u>2,056,492</u>	<u>226,750</u>
Total public works	<u>2,262,110</u>	<u>2,283,242</u>	<u>2,056,492</u>	<u>226,750</u>
Health, Welfare, and Recreation				
Contributions to other agencies	259,765	219,765	244,891	(25,126)
Total expenditures	<u>9,882,690</u>	<u>9,187,606</u>	<u>8,541,424</u>	<u>646,182</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures				
	3,331,236	3,801,746	4,728,315	926,569
Other Financing Sources (Uses)				
Transfers Out	(4,324,620)	(4,656,869)	(4,656,869)	-
Total other financing sources and uses	<u>(4,324,620)</u>	<u>(4,656,869)</u>	<u>(4,656,869)</u>	<u>-</u>
Net change in fund balance	<u>\$ (993,384)</u>	<u>\$ (855,123)</u>	<u>71,446</u>	<u>\$ 926,569</u>
Fund Balance - beginning			<u>6,270,327</u>	
Fund Balance - ending			<u>\$ 6,341,773</u>	

See notes to the financial statements.

City of Manchester, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Purpose School Funds
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Positive (Negative) Variance with Final
	Original	Final		
Revenues				
Charges for services	\$ 159,000	\$ 159,000	\$ 149,192	\$ (9,808)
Other local revenues	27,000	33,250	35,427	2,177
Intergovernmental	11,961,398	12,481,105	13,476,855	995,750
Total revenues	12,147,398	12,673,355	13,661,474	988,119
Expenditures				
<u>Instruction</u>				
Regular instruction	7,210,580	7,442,330	7,392,468	49,862
Alternative instruction	33,544	34,114	35,205	(1,091)
Special education	1,402,524	1,390,434	1,385,877	4,557
Student body education	2,000	2,000	-	2,000
<u>Support Services</u>				
Attendance	116,509	118,209	111,002	7,207
Health services	251,262	253,282	251,325	1,957
Other student support	183,348	178,348	171,534	6,814
Regular instruction	413,371	481,391	437,153	44,238
Special education	313,448	338,148	311,944	26,204
Board of Education	230,824	245,954	230,693	15,261
Office of the superintendent	249,792	256,042	250,676	5,366
Office of the principal	707,695	710,195	709,566	629
Fiscal services	248,559	251,859	255,039	(3,180)
Operation of plant	848,987	859,387	893,868	(34,481)
Maintenance of plant	465,284	465,284	335,893	129,391
Transportation	35,712	35,712	27,919	7,793
Central and other	505,188	500,918	457,362	43,556
<u>Operation of Non-instructional Services</u>				
Community services	329,782	293,409	297,725	(4,316)
Early childhood education	277,456	282,306	302,451	(20,145)
<u>Capital Outlay</u>	141,000	392,500	96,671	295,829
Total expenditures	13,966,865	14,531,822	13,954,371	577,451
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(1,819,467)	(1,858,467)	(292,897)	1,565,570
Other Financing Sources (Uses)				
Transfers In	1,678,467	1,858,467	1,858,467	-
Total other financing sources and uses	1,678,467	1,858,467	1,858,467	-
Net change in fund balance	\$ (141,000)	\$ -	1,565,570	\$ 1,565,570
Fund balance - beginning			4,337,724	
Fund balance - ending			\$ 5,903,294	

See notes to the financial statements.

City of Manchester, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Debt Service Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final
	Original	Final		Final
Revenues				
Other local revenues	\$ 39,875	\$ 70,750	\$ 74,959	\$ 4,209
Total revenues	39,875	70,750	74,959	4,209
Expenditures				
Debt service	1,698,618	1,698,618	1,691,266	7,352
Total expenditures	1,698,618	1,698,618	1,691,266	7,352
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(1,658,743)	(1,627,868)	(1,616,307)	11,561
Other Financing Sources (Uses)				
Transfers In	1,696,117	1,607,016	1,602,507	(4,509)
Total other financing sources and uses	1,696,117	1,607,016	1,602,507	(4,509)
Net change in fund balance	\$ 37,374	\$ (20,852)	(13,800)	\$ 7,052
Fund Balance - beginning			2,609,626	
Fund Balance - ending			\$ 2,595,826	

See notes to the financial statements.

City of Manchester, Tennessee
Proprietary Fund
Statement of Net Position
June 30, 2018

	<u>Water and Sewer Department</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 5,784,461
Investment in pooled cash	3,498,476
Accounts receivable, net	374,914
Unbilled revenues	123,340
Notes Receivable-current portion	390,000
Inventories	<u>196,936</u>
Total current assets	10,368,127
Noncurrent assets:	
Notes receivable-long-term portion	8,380,000
Net pension assets	35,923
Capital assets, not being depreciated	347,071
Capital assets, being depreciated, net	<u>32,868,019</u>
Total noncurrent assets	<u>41,631,013</u>
Total assets	51,999,140
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	60,985
Total deferred outflows of resources	<u>60,985</u>
LIABILITIES	
Current liabilities:	
Accounts payable	206,058
Accrued payroll and payroll liabilities	26,133
Due to other funds	87,600
Accrued interest payable	43,327
Other current liabilities	15,790
Revenue bonds payable, current	<u>1,539,828</u>
Total current liabilities	1,918,736
Noncurrent liabilities:	
Customer deposits	403,106
Compensated absences	337,514
Revenue bonds payable	<u>25,785,801</u>
Total noncurrent liabilities	<u>26,526,421</u>
Total liabilities	<u>28,445,157</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pension	10,578
Related to debt	67,125
Total deferred inflows of resources	<u>77,703</u>
NET POSITION	
Net investment in capital assets	12,160,706
Restricted for pension	35,923
Unrestricted	<u>11,340,636</u>
Total net position	<u>\$ 23,537,265</u>

See notes to the financial statements.

City of Manchester, Tennessee
Proprietary Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

	<u>Water and Sewer Department</u>
Operating revenues:	
Charges for services:	
Water and sewer revenues	\$ 5,879,117
Forfeited discounts	102,677
Connection and other fees	196,840
Miscellaneous water revenues	33,694
Other operating revenue	31,185
Total operating revenues	<u>6,243,513</u>
Operating Expenses:	
Transmission and distribution	1,249,102
Customer accounting and collection	317,422
Sewer treatment and disposal	677,459
Shop and maintenance	1,843,272
Depreciation	1,558,636
Total operating expenses	<u>5,645,891</u>
Operating income	597,622
Nonoperating revenues (expenses):	
Interest	33,856
Leases	72,183
Industrial park contribution	17,400
Loss on disposal of fixed assets	(38,022)
Bond interest and fiscal charges	(510,251)
Total nonoperating revenues (expenses)	<u>(424,834)</u>
Change in Net Position	172,788
Net position, beginning as previously reported	23,340,599
Restatement	23,878
Net position, beginning as restated	<u>23,364,477</u>
Net position, ending	<u>\$ 23,537,265</u>

See notes to the financial statements.

City of Manchester, Tennessee
Proprietary Fund
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash Flows from Operating Activities

Cash received from customers	\$ 6,277,680
Cash paid to employees for services	1,848,625
Cash paid to suppliers of goods and services	(5,888,913)
Net cash provided by (used in) operating activities	2,237,392

Cash Flows from Capital and Related Financing Activities

Acquisitions of capital assets	(457,058)
Interest paid on capital debt	(509,896)
Principal paid on capital debt	(1,109,060)
Net cash provided by (used in) by capital and related financing activities	(2,076,014)

Cash Flows from Investing Activities

Interest received	33,856
Other nonoperating revenues	65,078
Net cash provided by (used in) investing activities	98,934

Net increase in cash	260,312
Cash, beginning	9,022,625
Cash, ending	\$ 9,282,937

Reconciliation of Operating Income to Net Cash Provided by Operations

Operating Income	\$ 621,500
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,558,636
(Increase) decrease in accounts receivable	7,998
(Increase) decrease in inventory	(18,495)
(Increase) decrease in net pension asset	(33,751)
(Increase) decrease in deferred outflows related to pension	(179,735)
Increase (decrease) in accounts payable	(17,846)
Increase (decrease) in accrued payroll	(7,321)
Increase (decrease) in compensated absences	38,295
Increase (decrease) pension restatement	241,942
Increase (decrease) in due to other funds	24,277
Increase (decrease) in other current liabilities	(9,925)
Increase (decrease) in bond premiums	(6,613)
increase (decrease) in pension deferred inflows	3,695
Increase (decrease) in customer deposits	14,735
Net cash provided by operating activities	\$ 2,237,392

See notes to the financial statements.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manchester, Tennessee (the City) operates under a Mayor-Aldersperson form of government. The City's major operations include the following departments: general government, public safety, public school system, highways and streets, health and social services, recreation, public improvements, and planning and zoning. In addition, the City owns and provides water and sewer services.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The GASB periodically updates its codification of the existing Governmental Accounting Standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting policies of the City are described below.

A. Reporting Entity

The City, for financial purposes, includes all the funds relevant to the operations of the City of Manchester, Tennessee (the primary government). The City is also required to include in its financial statements those separately administered organizations (component units) with which the City has significant operational or financial relationships. The criteria for including organizations as component units within the City's reporting entity include whether the organization is legally separate and whether the City holds the corporate powers, whether the City appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the City. Based on the foregoing criteria, the City of Manchester has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. However, when applicable, inter-fund services provided and used between functions are not eliminated in the process of consolidation in the Statement of Activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity 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 the given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City of Manchester issues all debt for the Manchester City Schools. There were no debt issues contributed by the City to the City Schools during the year ended June 30, 2018.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. 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 are recorded only when payment is due.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). However, July and August 2018 property tax collections have been included in revenues. All other revenue items are considered to be measurable and available only when the City receives cash.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classifications within the financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

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

Debt Service - The Debt Service Fund is used 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 Proprietary Fund.

The City reports the following major proprietary fund:

Water & Sewer Fund - The Water & Sewer Fund accounts for revenues and expenses related to potable water and waste water services provided to customers of the system.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 Water and Sewer Fund are charges to customers for sales and services. The Water Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

D. DEPOSITS AND INVESTMENTS

State statutes authorize the City to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer's Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the City's own legally issued bonds or notes.

The City's Financial Officer maintains a cash and internal investment pool that is used by all funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Investment in Pooled Cash.

Cash consists of cash-on-hand and on-deposit with financial institutions. For purposes of reporting cash on the Statement of Net Position, the City considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash is reported on the Statement of Cash Flows as "Cash". At June 30, 2018, the City had no cash equivalents or investments.

E. RECEIVABLES AND PAYABLES

All property taxes are shown with an allowance for uncollectible taxes. Allowances for uncollectible taxes are based on historical collection data.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as a deferred inflow of resources as of June 30th.

Property taxes are levied as of October 1. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

F. INVENTORIES

Inventories of the School Fund consists of food and supplies and is valued at cost and recorded using purchase and consumption methods for fund and governmental activities statement presentation.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

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

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The City's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Depreciation of capital assets is computed and recorded by the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Estimated Useful Life</u>
Buildings	25-50 Years
Infrastructure (roads, bridges)	50 Years
Distribution Systems	10-50 Years
Equipment	3-10 Years
Furniture and Fixtures	3-10 Years

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

H. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Other deferred outflows of resources include those related to pension and OPEB changes and employer contributions to the pension plan after the measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This includes unavailable revenues from property taxes and other revenues as well as deferred inflows of resources related to pension and OPEB changes.

I. PENSIONS

Teacher Legacy Pension Plan/Teacher Retirement Plan/Manchester Public Employee Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the above plans in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of each plan. Investments are reported at fair value.

Manchester City Schools - Other Postemployment Benefits: For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and pension OPEB expense, for the period if not otherwise identifiable in the financial statements. Amounts paid by the employer for OPEB benefits as they came due subsequent to the measurement date of total OPEB liability and before the end of the reporting period are reported as deferred outflows.

J. COMPENSATED ABSENCES

The City 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, 2018 are expected to be liquidated with expendable available financial resources; accordingly, a liability is not recorded in the fund statements. Compensated absences are

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

accrued when incurred in the governmental activities and proprietary fund financial statements.

K. LONG-TERM OBLIGATIONS

In government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt or other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences and other post-employment benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

L. INTERNAL ACTIVITY (DUE FROM/TO OTHER FUNDS)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the non-current portion of inter-fund loans) or "advances to/from other funds" (the current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." These balances are eliminated within the governmental activities funds and within the business-type activities funds. Any residual balances outstanding are reported in the government-wide financial statements as "internal balances."

M. NET POSITION AND FUND BALANCE

In the government-wide financial statements, equity is classified as net position and may be displayed in the following components:

Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation. It should be noted that no outstanding long-term debt exists for this entity.

Restricted net position – Consists of net position with constraints placed on the use either by:
(A) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or
(B) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that does not meet the definition of restricted or net investment in capital assets.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Governmental funds utilize a fund balance presentation of equity. Fund balance is categorized as non-spendable, restricted, committed, assigned, or unassigned.

Non-spendable fund balance - Includes amounts that cannot be spent because they are either not in a spendable form (such as inventory or prepaid) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance - Includes amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed fund balance - Includes amounts that can be used only for specific purposes imposed by a formal action of the government's highest level of decision-making authority. The Board of Aldermen is the highest level of decision making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by ordinance remains in place until a similar action is taken (adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance - Is intended to be used by the City for specific purposes but do not meet the classification as committed. This limitation can be imposed by a designee of the Board of Aldermen. The Board of Aldermen may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

Unassigned fund balance - Is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes. Proprietary fund equity is classified the same as in the government-wide statements.

Fund Balance Flow Assumption - When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed fund balances would be reduced first, followed by assigned amounts, and then unassigned amounts.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting - General governmental revenue and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements, which govern the City's operations.

The City is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the City Board and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

Subsequently the budget is enacted through vote of the Mayor and Board of Aldermen with an operative date of July 1. Budgets, as adopted and amended, are adopted for the General Fund, and Special Revenue Funds, on a basis consistent with generally accepted accounting principles. These formal budgets are adopted on a departmental basis. The City Mayor is authorized to transfer budgeted amounts between departments within any fund. However, any revision that alters the total expenditures of any fund must be approved by the Board of Aldermen. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations that are not expended lapse at year end.

The City's budgetary basis of accounting is consistent GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and GAAP basis is presented on the face of each budgetary schedule.

NOTE 3 - DEPOSITS AND INVESTMENTS

The City of Manchester participates in an internal cash and investment pool through the City Finance Director's office. The City Financial Officer is responsible for receiving, disbursing, and investing most City funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Investment in Pooled Cash. Cash reflected on the balance sheets or statements of net position represents non-pooled amounts held separately by individual funds.

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105% of the average daily balance of public deposits held.

Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105% of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the City.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

<u>Governmental Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,710,363	\$ -	\$ -	\$ 4,710,363
Construction in Progress	79,144	214,082	33,307	259,919
Total not being depreciated	<u>4,789,507</u>	<u>214,082</u>	<u>33,307</u>	<u>4,970,282</u>
Capital assets being depreciated:				
Buildings	27,291,026	59,856	13,169	27,337,713
Other improvements	403,668	-	-	403,668
Infrastructure	26,600,719	473,177	102,843	26,971,053
Machinery & Equipment	7,038,339	658,542	464,771	7,232,110
Total capital assets being depreciated	<u>61,333,752</u>	<u>1,191,575</u>	<u>580,783</u>	<u>61,944,544</u>
Less: accumulated depreciation	<u>36,799,925</u>	<u>1,593,169</u>	<u>491,074</u>	<u>37,902,020</u>
Net capital assets being depreciated	<u>24,533,827</u>	<u>(401,594)</u>	<u>89,709</u>	<u>24,042,524</u>
Net capital assets	<u>\$ 29,323,334</u>	<u>\$ (187,512)</u>	<u>\$ 123,016</u>	<u>\$ 29,012,806</u>

Depreciation expense was charged to the following functions/programs:

General government	\$ 411,203
Public Safety	100,320
Drug Fund	102,115
Public Works	199,147
Sanitation	43,362
Recreation	289,370
Schools	447,652
Total	<u>\$1,593,169</u>

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

<u>Business-type Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 210,937	\$ -	\$ -	\$ 210,937
Construction in Progress	361,320	373,632	598,818	136,134
Total capital assets not being depreciated	<u>572,257</u>	<u>373,632</u>	<u>598,818</u>	<u>347,071</u>
Capital assets being depreciated				
Buildings	398,600	-		398,600
Infrastructure	53,080,142	598,818	71,654	53,607,306
Machinery & Equipment	1,356,919	53,420		1,410,339
Total capital assets being depreciated	<u>54,835,661</u>	<u>652,238</u>	<u>71,654</u>	<u>55,416,245</u>
Less: accumulated depreciation	<u>21,023,220</u>	<u>1,558,636</u>	<u>33,630</u>	<u>22,548,226</u>
Net capital assets being depreciated	<u>33,812,441</u>	<u>(906,398)</u>	<u>38,024</u>	<u>32,868,019</u>
Net capital assets	<u>\$ 34,384,698</u>	<u>\$ (532,766)</u>	<u>\$ 636,842</u>	<u>\$ 33,215,090</u>

During 2018, depreciation in the amount of \$1,558,636 was charged to operations.

NOTE 5 - INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2018, is as follows:

<u>Due from:</u>	<u>Due to:</u>	<u>Amount</u>
Water/Sewer	Sanitation	\$ 69,063
	General	18,537
Recreation	General	38,266
General Purpose School	Central Cafeteria	31,463
General	General Purpose School	5,604
Total		<u>\$ 162,933</u>

Interfund Balances: These balances resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These balances will be repaid within one year.

Transfers: Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

NOTE 6 - LONG-TERM OBLIGATIONS

Governmental Activities

General Obligation Bonds, Capital Outlay Notes, and Other Loans

The City issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the primary government.

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds and other loans outstanding were issued for original terms of up to 30 years for bonds and up to 20 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and other loans included in long-term debt as of June 30, 2018, will be retired from the Debt Service Fund.

Business-type Activities

General Obligation and Revenue Bonds, and Other Loans

The City issues general obligation and revenue bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the Water and Sewer System.

General obligation and revenue bonds, and other loans are issued pledging the revenue of the Manchester Water and Sewer system and the full faith and credit of the government. These bonds and other loans outstanding were issued for original terms of up to 50 years for bonds and up to 30 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. These bonds and the State Revolving Loan as of June 30, 2018, will be retired from the Water and Sewer Fund.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Debt outstanding as of June 30, 2018 consisted of the following:

	Interest Rates	Maturity Date	Original Issue	Balance June, 30 2018
Governmental Activities:				
Capital Outlay Notes:				
Series 2010	3.85%	2019	\$ 275,000	\$ 626
General Obligation Bonds:				
Refunding bonds, Series 2010	4.70%	2038	10,620,000	10,560,000
Refunding bonds, Series 2013	2.91%	2030	9,690,000	8,975,000
Refunding bonds, Series 2016B	2.00%	2021	880,000	560,000
			<u>\$ 21,465,000</u>	<u>\$ 20,095,626</u>
Business-Type Activities:				
Bonds Payable:				
Refunding bonds, Series 2010	3.82%	2028	5,620,000	5,465,000
Refunding bonds, Series 2014	3.94%	2020	3,120,000	970,000
Refunding bonds, Series 2016B	2.00%	2037	5,640,000	5,410,000
Rural Development, Series 2011	3.00%	2050	1,348,000	1,207,342
Rural Development, Series 2014		2028	443,658	352,538
(a) Public Improv Bonds, Series 2016A (DRUC)		2031	6,240,000	5,850,000
(a) Public Improv Bonds, Series 2010 (DRUC)	4.74%	2038	2,940,000	2,920,000
Other Loans:				
SRF Loan, Series 2011	2.16%	2031	7,500,000	5,150,749
			<u>\$ 32,851,658</u>	<u>\$ 27,325,629</u>
(a) See note on Duck River Utility Commission			<u>\$ 54,316,658</u>	<u>\$ 47,421,255</u>

Annual debt service requirements to maturity for long-term debt are as follows:

Years Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 670,626	\$ 755,587	\$ 1,539,828	\$ 777,169
2020	675,000	732,449	1,579,334	735,410
2021	705,000	717,905	1,684,064	692,133
2022	735,000	697,267	1,729,025	649,533
2023	755,000	679,249	1,764,225	600,795
2024-2028	4,205,000	3,032,287	9,638,758	2,243,393
2029-2033	5,375,000	2,335,015	5,163,144	1,171,461
2034-2038	6,975,000	1,071,594	3,656,473	512,186
2039-2043	-	-	228,226	69,292
2044-2048	-	-	265,112	76,502
2049-2050	-	-	77,440	1,663
	<u>\$ 20,095,626</u>	<u>\$ 10,021,353</u>	<u>\$ 27,325,629</u>	<u>\$ 7,529,537</u>

CITY OF MANCHESTER, TENNESSEE
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A summary of long-term liability activity, including debt, for the year ended June 30, 2018 is as follows:

	Balance June, 30 2017	Increases	Decreases	Balance June, 30 2018	Amounts Due Within One Year
Governmental Activities					
Capital Outlay Notes	\$ 79,196	\$ -	\$ (78,570)	\$ 626	\$ 626
Capital Leases	109,003	100,080	(88,856)	120,227	45,810
Bonds	20,720,000	-	(625,000)	20,095,000	670,000
Compensated Absences	1,804,225	68,732	(10,695)	1,862,262	-
OPEB	915,298	214,402	(915,298)	214,402	-
	<u>\$ 23,627,722</u>	<u>\$ 383,214</u>	<u>\$ (1,718,419)</u>	<u>\$ 22,292,517</u>	<u>\$ 716,436</u>
Business-Type Activities					
Refunding Bonds, all Series	\$ 12,550,000	\$ -	\$ (705,000)	\$ 11,845,000	\$ 730,000
Rural Development Bonds	1,614,183	-	(54,303)	1,559,880	55,989
Public Improvement Bonds	9,160,000	-	(390,000)	8,770,000	400,000
State Revolving Loan	5,497,035	-	(346,286)	5,150,749	353,839
Compensated Absences	299,219	38,295	-	337,514	-
	<u>\$ 29,120,437</u>	<u>\$ 38,295</u>	<u>\$ (1,495,589)</u>	<u>\$ 27,663,143</u>	<u>\$ 1,539,828</u>

Compensated absences and other post-employment benefits are generally liquidated by the general fund and general purpose school fund.

Other Long-Term Debt - Duck River Utility Commission

The local Government 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 (DRUC) to construct their facilities and improvements to utility plant through an agreement between the City of Tullahoma and the City of Manchester. As a result, DRUC is primarily responsible for the repayment of the loans. The City carries the long-term debt related to these bonds and a corresponding receivable from DRUC at June 30, 2018, of \$8,770,000. These loans will be retired by the Duck River Utility Commission.

Capital Leases

In January 2017, the City of Manchester School system entered into a capital lease agreement for the purchase of servers for their data processing network. This agreement required an annual payment of \$13,716, which includes interest and principal. The lease purchase agreement has a stipulated interest rate of 3.46%. The principal balance of this lease purchase agreement on June 30, 2018 was \$26,071.

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For the Year Ended June 30, 2018

On April 17, 2018, the City of Manchester entered into a capital lease agreement with Municipal Asset Management, Inc. for the lease of cardio equipment for the Manchester Recreation Center. This agreement requires a monthly payment of \$2,780 with no stipulation of the interest rate for the lease of this equipment. The discounted value on the date of the lease was \$100,080, which exceeded 90% of the estimated value of this equipment on the date of the lease; therefore, this lease has been treated as a capital lease in the financial statements of this report. The principal balance as of June 30, 2018 was \$94,520.

NOTE 7 - EXPENDITURES IN EXCESS OF BUDGET

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

The General Fund of the City exceeded appropriations at the level of control for Health, Welfare, and Recreation by \$25,126. The Central Cafeteria Fund of Manchester City Schools exceeded appropriations at the level of control for Food Services by \$32,174.

NOTE 8 - RETIREMENT PLANS

Teacher Legacy Pension Plan of TCRS

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Manchester City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014 but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related, and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Manchester City Schools for the year ended June 30, 2018 to the Teacher Legacy Pension Plan were \$1,052,394 which is 9.08 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension liabilities (assets). At June 30, 2018, Manchester City Schools reported an asset of \$60,213 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial value as of that date. Manchester City Schools' proportion of the net pension asset was based on Manchester City Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2017 Manchester City Schools' proportion was 0.184037 percent. The proportion measured as of June 30, 2016 was 0.175901 percent.

Pension expense. For the year ended June 30, 2018, Manchester City Schools recognized pension expense of \$46,463.

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For the Year Ended June 30, 2018

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, Manchester City Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 36,301	\$ 1,243,134
Changes in assumptions	509,977	
Net difference between projected and actual earnings on pension plan investments	9,140	-
Changes in proportion of Net Pension Liability (Asset)	173,416	53,464
LEA's contributions subsequent to the measurement date of June 30, 2017	1,052,394	<i>(not applicable)</i>
Total	\$ 1,781,228	\$ 1,296,598

Manchester City Schools employer contributions of \$1,052,394, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ (385,094)
2020	230,906
2021	(109,412)
2022	(304,164)
2023	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

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

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

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The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Change in assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		<hr/> 100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents Manchester City Schools' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.25 percent, as well as what Manchester City School's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Manchester City Schools' proportionate share of the net pension liability (asset)	\$5,402,905	\$(60,213)	\$(4,575,842)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Manchester City Schools Teacher Retirement Plan

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Manchester City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014 but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related, and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Manchester City Schools for the year ended June 30, 2018 to the Teacher Retirement Plan were \$11,857 which is 4.00 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension liabilities (assets). At June 30, 2018, Manchester City Schools reported an asset of \$15,879 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. Manchester City Schools' proportion

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

of the net pension asset was based on Manchester City Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2017 Manchester City Schools' proportion was 0.060186 percent. The proportion measured as of June 30, 2016 was 0.062277 percent.

Pension expense. For the year ended June 30, 2018, Manchester City Schools recognized pension expense of \$7,182.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, Manchester City Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 557	\$ 1,194
Net difference between projected and actual earnings on pension plan investments	-	854
Change in assumptions	1,395	-
Changes on proportion of Net Pension Liability (Asset)	232	336
LEA's contributions subsequent to the measurement date of June 30, 2017	\$ 11,857	<i>(not applicable)</i>
	\$ 14,041	\$ 2,384
Total	\$ 14,041	\$ 2,384

Manchester City Schools employer contributions of \$11,857, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ (96)
2020	(96)
2021	(145)
2022	(365)
2023	38
Thereafter	\$ 462

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

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

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement. The actual assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; and decreased salary growth graded ranges from an average 4.25 percent to an average of 4.00 percent.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described above.

CITY OF MANCHESTER, TENNESSEE
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For the Year Ended June 30, 2018

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents Manchester City Schools’ proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Manchester City Schools’ proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Manchester City Schools’ proportionate share of the net pension liability (asset)	\$3,168	\$(15,879)	\$(29,851)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report.

TCRS Manchester General Government Retirement Plan

Plan description. Employees of Manchester are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms. At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	53
Active employees	146
	199

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Manchester makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, the employer contributions for Manchester were \$85,755 based on a rate of 3.17 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Manchester's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Manchester's net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

CITY OF MANCHESTER, TENNESSEE
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For the Year Ended June 30, 2018

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

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2013 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes in assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average 4.25 percent to an average 4.00 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		<hr/> 100%

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The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described previously.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Manchester will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 6/30/16	\$ 4,182,630	\$ 4,274,116	\$ (91,486)
Changes for the year:			
Service cost	465,708		465,708
Interest	345,901		345,901
Differences between expected and actual experience	63,102		63,102
Change in Assumptions	117,168		117,168
Contributions- employer		299,259	(299,259)
Contributions- employees		286,100	(286,100)
Net investment income		512,861	(512,861)
Benefit payments, including refunds of employee contributions	(72,644)	(72,644)	-
Administrative expense		(12,231)	12,231
Other changes	-	-	-
Net changes	<u>919,235</u>	<u>1,013,345</u>	<u>(94,110)</u>
Balance at 6/30/17	<u>\$ 5,101,865</u>	<u>\$ 5,287,461</u>	<u>\$ (185,596)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Manchester calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Manchester's net pension liability (asset)	\$ 797,100	\$ (185,596)	\$ (965,654)

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

Pension expense. For the year ended June 30, 2018, Manchester recognized pension expense of \$208,295.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, Manchester reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 125,180	\$ 43,815
Net difference between projects and actual earnings on pension plan investments	-	10,831
Change in Assumptions	104,149	-
Contributions subsequent to the measurement date of June 30, 2017	85,755	<i>(Not applicable)</i>
Total	\$ 315,084	\$ 54,646

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ 9,882
2020	55,505
2021	25,712
2022	(12,300)
2023	22,407
Thereafter	73,480

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2018, the City of Manchester and Manchester City Schools reported a payable of \$57,642 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

Manchester Public Employee Retirement System (MPERS)

Any employee participating in the City of Manchester Retirement Plan a single employer defined contribution plan established under 401(a) of the internal revenue code 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

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

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 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.

Each participant's account is credited with the participant's contributions and City's matching contributions. Participants are vested immediately in their contributions and in the City's contribution plus actual earnings thereon. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

Deferred Compensation Plan

All employees of the City of Manchester may voluntarily participate in a 457(b)(6) deferred compensation plan administered by Nationwide Retirement. Under Section 457 of the Internal Revenue Code, an employee may defer certain allowable wages to the plan. Participation is handled through payroll deduction, reducing employee federal taxes. Employees may increase, decrease, stop and restart contributions as they wish. The City does not contribute to the plan and does not recognize any expense related to the plan. The City's liability at June 30, 2018 is limited to employee payroll withholdings for the week not yet remitted to the administrator.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan description - Employees of Manchester City Schools, who were hired prior to July 1, 2015, are provided with pre-65 retiree health insurance benefits through the closed Local Government OPEB Plan (LGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who choose coverage, participate in the LGOP. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015.

B. Benefits provided - The City Schools offer the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health-savings consumer-driven

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

health plan (CDHP) for healthcare benefits. Retired plan members of the LGOP receive the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. The City currently pays for post-employment medical insurance benefits on a pay-as-you-go basis paying the monthly premiums. Retirees must pay the full premium for dependent coverage. The City Schools' contribution to the plan for the year ended June 30, 2018 was \$41,180. There are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

C. Employees covered by benefit terms - At July 1, 2017, the following employees of Manchester City Schools were covered by the benefit terms of the LGOP:

Inactive employees currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	127
Total	<u>127</u>

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. For the fiscal year ended June 30, 2018, Manchester City Schools paid \$486 to the LGOP for OPEB benefits as they came due.

D. Actuarial assumptions - The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	7.5% for 2018, decreasing annually over a 33 year period to an ultimate rate of 3.71%.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017 Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012 - June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate - The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
LGOP	
Balances at June 30, 2016	\$ 186,000
Changes for the year:	
Service cost	36,000
Interest	6,000
Changes of benefit terms	-
Differences between expected and actual experience	-
Change in assumptions	(14,000)
Benefit payments	-
Net changes	29,000
Balances at June 30, 2017	\$ 214,000

Changes in assumptions - The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Sensitivity of total OPEB liability to changes in the discount rate - The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate. (expressed in thousands)

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB Liability	\$ 236	\$ 214	\$ 194

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate – The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using the healthcare cost trend rate that is 1-percentage-point lower (6.50% decreasing to 2.71%) or 1-percentage-point higher (8.50% decreasing to 4.71%) than the current healthcare cost trend rate. (expressed in thousands)

	1% Decrease (6.50% to 2.71%)	Healthcare Cost Trend Rates (7.50% to 3.71%)	1% Increase (8.50% to 4.71%)
Total OPEB Liability	\$ 182	\$ 214	\$ 254

OPEB Expense- Deferred Outflows and Deferred Inflows of Resources Related to OPEB

OPEB expense - For the fiscal year ended June 30, 2018, Manchester City Schools recognized OPEB expense of \$41,180.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

Deferred outflows of resources and deferred inflows of resources - For the fiscal year ended June 30, 2018, City Schools reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the LGOP from the following sources:

LGOP	Deferred Outflows	Deferred Inflows
Differences between actual and expected experience	-	-
Changes of assumptions	-	12,345
Employer payments subsequent to the measurement date	-	-
Total	-	12,345

The amounts shown above for "Employer payments subsequent to the measurement date" is zero and will have no effect on total OPEB liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

For the year ended June 30:

2019	(1,000)
2020	(1,000)
2021	(1,000)
2022	(1,000)
2023	(1,000)
Thereafter	(6,000)

In the table above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, damages to assets and injuries to employees. The City participates in the Tennessee Municipal League (TML) Risk Management Pool. The membership allows the City to share liability and employee related risks.

The TML Risk Management Pool is a governmental entity organized by Tennessee cities as a not-for-profit corporation to provide liability and workers' compensation coverage to Tennessee cities. Emphasis is on risk management and controlling losses, as all costs are shared

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended June 30, 2018

by the Pool member cities. An extensive program of loss prevention, employee training, and legal counsel supplements experienced claims processing for member cities.

The City is subject to additional assessments as a member of the Pool, but such assessments have never been levied on the City and are not expected. There are no claims or judgments pending and claims paid (settled) have not exceeded insurance coverage in the past three years.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Several lawsuits against the City are ongoing, many of which normally recur in governmental operations. The ultimate outcome of the actions is not determinable; however, City officials believe that the outcome of these proceedings, either singularly or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

NOTE 12 - USE OF ESTIMATES

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 13 – SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about the conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the City through December 27, 2018 (the date the financial statements were available to be issued) and concluded that no events should be disclosed as a subsequent event.

NOTE 14 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD PRONOUNCEMENT

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, required for fiscal periods beginning after June 15, 2017. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

The implementation has been accounted for as a change in accounting principle with a prior period adjustment as determined by an actuary. The effect of this adjustment increased beginning net position for governmental activities by \$729,731.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Manchester, Tennessee
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on
Participation in the Public Employee Pension Plan of TCRS
General Government Employees
For the Fiscal Year Ended June 30th

	2014	2015	2016	2017
Total Pension Liability (Asset)				
Service Cost	\$ 392,551	\$ 409,021	\$ 428,731	\$ 465,708
Interest	202,268	241,631	286,230	345,901
Changes in Benefit Terms	(36,349)	(29,547)	86,361	63,102
Differences Between Actual and Expected Experience	-	-	-	117,168
Changes in Assumptions	(20,597)	(79,607)	(12,722)	(72,644)
Benefit Payments, Including Refunds of Employee Contributions	537,873	541,498	788,600	919,235
Net Change in Total Pension Liability (Asset)	2,314,659	2,852,532	3,394,030	4,182,630
Total Pension Liability (Asset), Beginning				
Total Pension Liability (Asset), Ending (a)	\$ 2,852,532	\$ 3,394,030	\$ 4,182,630	\$ 5,101,865

Plan Fiduciary Net Position				
Contributions - Employer	\$ 236,299	\$ 248,031	\$ 265,914	\$ 299,259
Contributions - Employee	225,047	236,781	254,221	286,100
Net Investment Income	418,209	103,794	104,059	512,861
Benefit Payments, Including Refunds of Employee Contributions	(20,597)	(79,607)	(12,722)	(72,644)
Administrative Expense	(4,520)	(6,871)	(10,406)	(12,231)
Net Change in Plan Fiduciary Net Position	\$ 854,438	\$ 502,128	\$ 601,066	\$ 1,013,345
Plan Fiduciary Net Position, Beginning	2,316,484	3,170,922	3,673,050	4,274,116
Plan Fiduciary Net Position, Ending (b)	\$ 3,170,922	\$ 3,673,050	\$ 4,274,116	\$ 5,287,461
Net Pension Liability (Asset), Ending (a - b)	\$ (318,390)	\$ (279,020)	\$ (91,486)	\$ (185,596)

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	111.16%	108.22%	102.19%	103.64%
Covered Employee Payroll	\$ 4,500,934	\$ 4,742,457	\$ 5,084,402	\$ 5,719,204
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	7.07%	5.88%	-1.80%	-3.25%

**GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

City of Manchester, Tennessee
Schedule of Contributions Based on Participation in the Public
Employee Pension Plan of TCRS
General Government Employees
For the Fiscal Year Ended June 30th

	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 236,299	\$ 248,031	\$ 265,914	\$ 258,508	\$ 224,357
Contributions in relation to the actuarially determined contribution	236,299	248,031	265,914	299,259	224,357
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (40,751)	\$ -
Covered Employee Payroll	\$ 4,500,934	\$ 4,742,457	\$ 5,084,402	\$ 5,719,204	\$ 7,067,778
Contributions as a Percentage of Covered Employee Payroll	5.25%	5.23%	5.23%	5.23%	3.17%

**GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Manchester City Schools' Proportionate Share of the
Net Pension Liability (Asset)
Teacher Retirement Plan of TCRS
For the Fiscal Year Ended June 30th

	2015	2016	2017
Manchester City Schools' proportion of the net pension liability (asset)	0.050259%	0.062277%	0.060186%
Manchester City Schools' proportionate share of the net pension liability (asset)	\$ (2,022)	\$ (6,483.00)	\$ (15,879.00)
Manchester City Schools' covered payroll	\$ 104,427	\$ 247,023	\$ 446,187
Manchester City Schools' proportionate share of the net pension liability (asset) as a percentage of its covered payroll	1.94%	-2.37%	-3.56%
Plan fiduciary net position as a percentage of the total pension liability	127.46%	121.88%	126.81%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

See independent auditor's report.

City of Manchester, Tennessee
 Schedule of Contributions Based on Participation in the Teacher
 Retirement Plan of TCRS
 For the Fiscal Year Ended June 30th

	2015	2016	2017	2018
Contractually required contribution	\$ 4,177	\$ 6,859	\$ 15,801	\$ 20,088
Contributions in Relation to the contractually required contribution	4,177	10,961	15,801	20,088
Contribution Deficiency (Excess)	\$ -	\$ (4,102)	\$ -	\$ -
Manchester City School's covered payroll	\$ 104,427	\$ 247,023	\$ 446,187	\$ 533,308
Contributions as a Percentage of Manchester City Schools' covered payroll	4.00%	4.00%	3.54%	3.77%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Manchester City Schools' Proportionate Share of the
Net Pension Liability (Asset)
Teacher Legacy Pension Plan of TCRS
For the Fiscal Year Ended June 30th

	2014	2015	2016	2017
Manchester City Schools' proportion of the net pension liability (asset)	0.176430%	0.184713%	0.175901%	0.184037%
Manchester City Schools' proportionate share of the net pension liability (asset)	\$ (28,669)	\$ 75,665	\$ 1,099,287	\$ (60,213)
Manchester City Schools' covered payroll	\$ 6,924,855	\$ 6,914,728	\$ 6,349,698	\$ 6,454,473
Manchester City Schools' proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.414002%	1.094253%	17.31%	-0.93%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%	100.14%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Contributions
Legacy Pension Plan of TCRS
For the Fiscal Year Ended June 30th

	2014	2015	2016	2017	2018
Contractually Required	\$ 614,927	\$ 625,091	\$ 574,012	\$ 588,109	\$ 649,507
Contributions in Relation to the contractually required contribution	614,927	625,091	574,012	588,109	649,507
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Manchester City Schools' covered payroll	\$ 6,924,857	\$ 6,914,728	\$ 6,349,698	\$ 6,454,473	\$ 7,132,313
Contributions as a Percentage of Manchester City Schools' covered payroll	8.88%	9.04%	9.04%	9.11%	9.11%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB website for prior years' data, if needed.

City of Manchester, Tennessee
Schedule of Changes in Total OPEB Liability and Related Ratios
June 30, 2018

(Dollars in thousands)

LGOP	<u>2018</u>
Total OPEB liability	
Service cost	\$ 36
Interest	6
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(14)
Benefit payments	-
Net change in total OPEB liability	<u>\$ 28</u>
Total OPEB liability - beginning	<u>186</u>
Total OPEB liability - ending (a)	<u><u>\$ 214</u></u>

Covered-employee payroll 7,665.62

Total OPEB liability as a percentage of covered-employee payroll 2.79%

Notes to Schedule

There are no assets accumulating, in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

See independent auditor's report.

CITY OF MANCHESTER, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

Valuation Date: Actuarially determined contribution rates for fiscal year 2018 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Closed (Not to Exceed 20 Years)
Remaining Amortization Period	Varies by Year
Asset Valuation	10-Year Smoothed Within a 20% Corridor to Market Value
Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation
Investment Rate of Return	7.5%, Net of Investment Expense, Including Inflation
Retirement Age	Pattern of Retirement Determined by Experience Study
Mortality	Customized Table Based on Actual Experience Including an Adjustment for Some Anticipated Improvement
Cost of Living Adjustment	2.5%

**SUPPLEMENTARY AND OTHER
INFORMATION SECTION**

City of Manchester, Tennessee
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2018

	Special Revenue Funds										Capital Projects			Total Nonmajor Governmental Funds
	Recreation	Tourism and Community Development	School Federal Projects	Central Cafeteria	Sanitation	Drug Control	Capital Equipment Replacement	Education Capital Projects	Capital Projects		Total			
									Capital Equipment Replacement	Education Capital Projects				
\$	78,409	264,609	185,542	-	194,049	641,812	229,100	477	477	1,593,998				
	176,143	-	-	426,981	-	-	-	-	-	603,124				
	60,809	18,102	-	-	-	-	-	-	-	78,911				
	-	-	14,851	-	-	13,162	-	-	-	28,013				
	-	-	-	31,463	69,063	-	-	-	-	100,526				
	-	-	-	25,689	-	-	-	-	-	25,689				
Total assets	\$ 315,361	\$ 282,711	\$ 200,393	\$ 484,133	\$ 263,112	\$ 654,974	\$ 229,100	\$ 477	\$ 477	\$ 2,430,261				
	\$ 39,590	\$ 615	\$ -	\$ 1,358	\$ 43	\$ -	\$ -	\$ -	\$ -	\$ 41,606				
	21,542	-	22,857	-	2,125	-	-	-	-	46,524				
	773	-	920	-	54,223	-	-	-	-	55,916				
	46,500	-	-	13,433	-	-	-	-	-	59,933				
	38,266	-	-	-	-	-	-	-	-	38,266				
	63,260	-	-	-	70,154	-	-	-	-	133,414				
Total liabilities	209,931	615	23,777	14,791	56,391	70,154	-	-	-	375,659				
	-	-	-	25,689	-	-	-	-	-	25,689				
	-	-	-	443,653	-	584,820	-	-	-	1,028,473				
	105,430	282,096	176,616	-	206,721	-	229,100	477	477	1,000,440				
	105,430	282,096	176,616	469,342	206,721	584,820	229,100	477	477	2,054,602				
Total fund balances	\$ 315,361	\$ 282,711	\$ 200,393	\$ 484,133	\$ 263,112	\$ 654,974	\$ 229,100	\$ 477	\$ 477	\$ 2,430,261				

ASSETS

Investment in pooled cash
 Cash
 Accounts receivable, net
 Due from other governments
 Due from other funds
 Inventories

Total assets

LIABILITIES

Accounts payable and accrued liabilities
 Accrued payroll
 Other payables
 Judgements payable
 Due to other funds
 Unearned revenue

Total liabilities

FUND BALANCES

Nonspendable
 Restricted
 Assigned

Total fund balances

Total liabilities and fund balances

City of Manchester, Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue Funds							Capital Projects			Total Nonmajor Governmental Funds
	Tourism and Community Development	School Federal Projects	Central Cafeteria	Sanitation	Drug Control	Capital Equipment Replacement	Capital Education Projects				
Revenues											
Local taxes	\$ 267,860	\$ 133,930	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 401,790
Charges for services	1,161,551	-	201,019	1,088,538	-	-	-	-	-	-	2,451,108
Fines and forfeitures	-	-	-	-	59,491	-	-	-	-	-	59,491
Other local revenues	7,557	1,500	722	963	126,527	-	-	-	-	-	138,269
Intergovernmental	260,373	13,067	1,105,028	725,326	-	-	-	-	-	-	2,103,794
Total revenues	1,697,341	148,497	1,106,028	927,067	186,018	-	-	-	-	-	5,154,452
Expenditures											
Public safety	-	-	-	-	117,824	66,890	-	-	-	-	184,714
Public works	-	-	-	1,053,466	-	305,440	-	-	-	-	1,358,906
Health, welfare, and recreation	2,052,496	-	-	-	-	113,570	-	-	-	-	2,166,066
Economic development and assistance	-	135,429	-	-	-	-	-	-	-	-	135,429
Education	-	1,129,761	833,327	-	-	-	-	-	-	-	1,963,088
Total expenditures	2,052,496	135,429	833,327	1,053,466	117,824	485,900	-	-	-	-	5,808,203
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(355,155)	13,068	(23,733)	93,740	68,194	(485,900)	-	-	-	-	(653,751)
Other Financing Sources (Uses)											
Transfers In	557,500	18,250	-	-	-	715,000	-	-	-	-	1,360,750
Transfers Out	(108,229)	-	-	-	-	(56,626)	-	-	-	-	(164,855)
Total other financing sources and uses	449,271	18,250	-	-	-	715,000	-	-	-	-	1,195,895
Net change in fund balances	94,116	31,318	(23,733)	93,740	68,194	229,100	-	-	-	-	542,144
Fund balances - beginning	11,314	250,778	200,349	375,602	516,626	-	477	-	-	-	1,512,458
Fund balances - ending	\$ 105,430	\$ 282,096	\$ 176,616	\$ 469,342	\$ 584,820	\$ 229,100	\$ 477	\$ -	\$ -	\$ -	\$ 2,054,602

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Recreation Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Variance with</u> <u>Final</u>
Revenues				
Local taxes	\$ 165,000	\$ 195,000	\$ 267,860	\$ 72,860
Charges for services	1,194,700	1,200,165	1,161,551	(38,614)
Other local revenues	16,000	16,000	7,557	(8,443)
Intergovernmental	206,000	301,510	260,373	(41,137)
Total revenues	<u>1,581,700</u>	<u>1,712,675</u>	<u>1,697,341</u>	<u>(15,334)</u>
Expenditures				
<u>Health, Welfare, and Recreation</u>				
<u>Recreation Administration</u>				
Personnel expenditures	218,270	223,470	200,918	22,552
Contractual services			16,002	(16,002)
Supplies			1,732	(1,732)
Total recreation administration	<u>218,270</u>	<u>223,470</u>	<u>218,652</u>	<u>4,818</u>
<u>Recreation Centers</u>				
Personnel expenditures	1,190,296	1,194,580	564,902	629,678
Contractual services			448,555	(448,555)
Supplies			132,408	(132,408)
Fixed charges			23,249	(23,249)
Capital outlay			13,999	(13,999)
Total recreation centers	<u>1,190,296</u>	<u>1,194,580</u>	<u>1,183,113</u>	<u>11,467</u>
<u>Parks</u>				
Personnel expenditures	478,745	728,505	216,831	511,674
Contractual services			128,164	(128,164)
Supplies			66,574	(66,574)
Fixed charges			6,500	(6,500)
Capital outlay			232,662	(232,662)
Total park areas	<u>478,745</u>	<u>728,505</u>	<u>650,731</u>	<u>77,774</u>
Total expenditures	<u>1,887,311</u>	<u>2,146,555</u>	<u>2,052,496</u>	<u>94,059</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(305,611)	(433,880)	(355,155)	78,725
Other Financing Sources (Uses)				
Transfers In	1,055,911	1,055,911	557,500	(498,411)
Transfers Out	(85,000)	(115,666)	(108,229)	7,437
Total other financing sources and uses	<u>970,911</u>	<u>940,245</u>	<u>449,271</u>	<u>(490,974)</u>
Net change in fund balance	<u>\$ 665,300</u>	<u>\$ 506,365</u>	<u>94,116</u>	<u>\$ (412,249)</u>
Fund Balance - beginning			<u>11,314</u>	
Fund Balance - ending			<u>\$ 105,430</u>	

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Tourism and Community Development Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive</u> <u>(Negative)</u> <u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final</u>
Revenues				
Local taxes	\$ 75,000	\$ 100,567	\$ 148,497	\$ 47,930
Total revenues	75,000	100,567	148,497	47,930
Expenditures				
<u>Economic Development and Assistance</u>				
<u>Tourism and Community Development</u>				
Personnel expenditures	5,000	5,000	892	4,108
Contractual services	64,400	128,000	134,289	(6,289)
Supplies	5,600	5,600	248	5,352
Total expenditures	75,000	138,600	135,429	3,171
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	-	(38,033)	13,068	51,101
Other Financing Sources (Uses)				
Transfers in	-	-	18,250	(18,250)
Total other financing sources and uses	-	-	18,250	(18,250)
Net change in fund balance	<u>\$ -</u>	<u>\$ (38,033)</u>	<u>31,318</u>	<u>\$ 51,101</u>
Fund Balance -beginning			<u>250,778</u>	
Fund Balance - ending			<u>\$ 282,096</u>	

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
School Federal Projects
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
				<u>Variance with</u>
				<u>Final</u>
Revenues				
Other local revenues	\$ -	\$ -	\$ 1,000	\$ 1,000
Intergovernmental	1,268,616	1,350,642	1,105,028	(245,614)
Total revenues	<u>1,268,616</u>	<u>1,350,642</u>	<u>1,106,028</u>	<u>(244,614)</u>
Expenditures				
<u>Instruction</u>				
Regular instruction	521,929	474,744	448,184	26,560
Special education	506,917	593,899	508,785	85,114
<u>Support Services</u>				
Other student support	15,418	26,073	16,367	9,706
Regular instruction	123,325	158,208	104,672	53,536
Special education	92,395	87,047	41,631	45,416
Transportation	8,632	10,671	10,122	549
Total expenditures	<u>1,268,616</u>	<u>1,350,642</u>	<u>1,129,761</u>	<u>220,881</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(23,733)</u>	<u>\$ (24,733)</u>
Fund Balance - beginning			<u>200,349</u>	
Fund Balance - ending			<u>\$ 176,616</u>	

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Central Cafeteria Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive</u> <u>(Negative)</u> <u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final</u>
Revenues				
Charges for services	\$ 189,170	\$ 189,170	\$ 201,019	\$ 11,849
Other local revenues	1,000	1,000	722	(278)
Intergovernmental	558,935	610,983	725,326	114,343
Total revenues	<u>749,105</u>	<u>801,153</u>	<u>927,067</u>	<u>125,914</u>
Expenditures				
<u>Operation of Non-instructional Services</u>				
Food service	749,105	801,153	833,327	(32,174)
Total expenditures	<u>749,105</u>	<u>801,153</u>	<u>833,327</u>	<u>(32,174)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>93,740</u>	<u>\$ 93,740</u>
Fund Balance - beginning			<u>375,602</u>	
Fund Balance- ending			<u>\$ 469,342</u>	

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Sanitation Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance with Final</u>
	<u>Original</u>	<u>Final</u>		<u>Final</u>
Revenues				
Charges for services	\$ 1,005,000	\$ 1,005,000	\$ 1,088,538	\$ 83,538
Other local revenues	3,000	3,000	963	(2,037)
Total revenues	<u>1,008,000</u>	<u>1,008,000</u>	<u>1,089,501</u>	<u>81,501</u>
Expenditures				
<u>Public Works</u>				
Personnel expenditures	395,550	395,550	374,406	21,144
Contractual services	693,000	693,000	668,178	24,822
Supplies	58,500	56,000	10,882	45,118
Fixed charges	-	2,500		2,500
Total expenditures	<u>1,147,050</u>	<u>1,147,050</u>	<u>1,053,466</u>	<u>93,584</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(139,050)	(139,050)	36,035	175,085
Other Financing Sources (Uses)				
Transfers in	70,000	70,000	70,000	-
Transfers out	(56,626)	(56,626)	(56,626)	-
Total other financing sources and uses	<u>13,374</u>	<u>13,374</u>	<u>13,374</u>	<u>-</u>
Net change in fund balance	<u>\$ (125,676)</u>	<u>\$ (125,676)</u>	<u>49,409</u>	<u>\$ 175,085</u>
Fund Balance - beginning			<u>157,312</u>	
Fund Balance -ending			<u>\$ 206,721</u>	

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Drug Control Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive</u> <u>(Negative)</u> <u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final</u>
Revenues				
Fines and forfeitures	\$ 65,000	\$ 65,000	\$ 59,491	\$ (5,509)
Other local revenues	164,000	170,200	126,527	(43,673)
Intergovernmental	3,500	3,500	-	(3,500)
Total revenues	<u>232,500</u>	<u>238,700</u>	<u>186,018</u>	<u>(52,682)</u>
Expenditures				
<u>Public Safety</u>				
Personnel expenditures	30,000	31,410	18,910	12,500
Contractual services	62,500	63,200	11,860	51,340
Supplies	73,000	73,000	31,903	41,097
Capital outlay	70,000	70,000	55,151	14,849
Total expenditures	<u>235,500</u>	<u>237,610</u>	<u>117,824</u>	<u>119,786</u>
Net change in fund balance	<u>\$ (3,000)</u>	<u>\$ 1,090</u>	<u>68,194</u>	<u>\$ 67,104</u>
Fund balance -beginning			<u>516,626</u>	
Fund balance - ending			<u>\$ 584,820</u>	

See independent auditor's report.

City of Manchester, Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Capital Equipment Replacement Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Positive (Negative) Variance with Final
	<u>Original</u>	<u>Final</u>		<u>Final</u>
Expenditures				
<u>General Government</u>				
Planning & zoning - capital outlay	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
<u>Public Safety</u>				
Police - capital outlay	67,000	67,000	66,890	(110)
Fire - capital outlay	49,000	49,000	-	(49,000)
<u>Public Works</u>				
Public Works - capital outlay	130,000	349,000	232,940	(116,060)
Sanitation - capital outlay	80,000	80,000	72,500	(7,500)
<u>Recreation</u>				
Recreation Center - capital outlay	122,500	122,500	85,807	(36,693)
Park areas - capital outlay	35,000	44,500	27,763	(16,737)
Total expenditures	<u>486,500</u>	<u>715,000</u>	<u>485,900</u>	<u>(229,100)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(486,500)	(715,000)	(485,900)	229,100
Other Financing Sources (Uses)				
Transfers in	486,500	715,000	715,000	-
Total other financing sources and uses	<u>486,500</u>	<u>715,000</u>	<u>715,000</u>	<u>-</u>
Net change in fund balance				
	<u>\$ -</u>	<u>\$ -</u>	229,100	<u>\$ 229,100</u>
Fund balance -beginning				
			-	
Fund balance - ending				
			<u>\$ 229,100</u>	

See independent auditor's report.

City of Manchester, Tennessee
 Schedule of Principal and Interest Requirements
 Governmental Activities
 June 30, 2018

Fiscal Year Ending	General Obligation Refunding Bond, Series 2010		General Obligation Refunding Bond, Series 2016B		Coffee County Bank		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 10,000	\$ 492,930	\$ 485,000	\$ 251,419	\$ -	\$ -	\$ 670,626	\$ 755,587
2020	10,000	492,630	480,000	232,119	-	-	675,000	732,449
2021	10,000	492,305	495,000	221,600	-	-	705,000	717,905
2022	10,000	491,980	725,000	205,287	-	-	735,000	697,267
2023	10,000	491,655	745,000	187,594	-	-	755,000	679,249
2024	10,000	491,305	765,000	166,556	-	-	775,000	657,861
2025	10,000	490,905	805,000	142,406	-	-	815,000	633,311
2026	10,000	490,505	830,000	117,506	-	-	840,000	608,011
2027	10,000	490,105	860,000	90,631	-	-	870,000	580,736
2028	10,000	489,705	895,000	62,663	-	-	905,000	552,368
2029	10,000	489,305	930,000	33,600	-	-	940,000	522,905
2030	10,000	488,885	960,000	-	-	-	970,000	488,885
2031	1,115,000	488,465	-	-	-	-	1,115,000	488,465
2032	1,155,000	441,635	-	-	-	-	1,155,000	441,635
2033	1,195,000	393,125	-	-	-	-	1,195,000	393,125
2034	1,265,000	340,844	-	-	-	-	1,265,000	340,844
2035	1,330,000	285,500	-	-	-	-	1,330,000	285,500
2036	1,380,000	219,000	-	-	-	-	1,380,000	219,000
2037	1,475,000	150,000	-	-	-	-	1,475,000	150,000
2038	1,525,000	76,250	-	-	-	-	1,525,000	76,250
	\$ 10,560,000	\$ 8,287,034	\$ 8,975,000	\$ 1,711,381	\$ 560,000	\$ 22,900	\$ 20,095,626	\$ 10,021,353

See independent auditor's report.

**City of Manchester, Tennessee
Schedule of Principal and Interest Requirements
Business-Type Activities**

Year	General Obligation Refunding Bonds Series 2010		General Obligation Refunding Bonds Series 2016B		Local Government Public Improvement Bonds Series 2010 Z-1-DRUC*		Water & Sewer Revenue & Tax Revenue & Tax Refunding GO Bonds Series 2016A-DRUC		General Obligation Refunding Bonds Series 2014		SRF Loan Series 2011		RDA Bonds Series 2011		RDA Bonds Series 2014		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 20,000	\$ 206,050	\$ 235,000	\$ 117,925	\$ -	\$ -	\$ 146,250	\$ 400,000	\$ 113,000	\$ 38,800	\$ 353,839	\$ 108,294	\$ 23,590	\$ 35,905	\$ 32,359	\$ 10,945	\$ 1,539,828	\$ 771,169
2020	20,000	205,450	240,000	113,225	-	-	146,250	405,000	104,950	19,800	361,558	100,575	24,308	35,284	33,468	9,876	1,579,334	735,410
2021	595,000	204,800	245,000	108,425	-	-	146,250	415,000	96,750	-	369,445	92,688	25,047	34,448	34,572	8,772	1,684,064	692,133
2022	615,000	185,463	250,000	103,525	-	-	146,250	425,000	88,350	-	377,504	84,627	20,809	33,686	35,712	7,632	1,729,025	640,583
2023	625,000	165,475	260,000	93,525	-	-	146,250	430,000	79,800	-	385,740	76,391	26,594	32,901	36,891	6,493	1,764,225	600,796
2024	670,000	143,690	265,000	88,525	-	-	146,250	440,000	71,100	-	394,154	67,976	32,180	38,108	38,108	5,236	1,834,655	564,687
2025	685,000	116,800	270,000	83,025	-	-	146,250	450,000	62,200	-	402,754	59,377	28,236	31,259	39,365	3,979	1,876,355	502,890
2026	705,000	89,400	275,000	77,625	-	-	146,250	460,000	53,100	-	411,540	50,591	29,095	30,400	40,063	2,681	1,921,298	450,047
2027	745,000	61,200	280,000	72,125	-	-	146,250	465,000	43,850	-	420,517	32,439	30,892	29,515	42,005	1,339	1,982,502	395,862
2028	785,000	31,400	285,000	66,525	-	-	146,250	475,000	34,450	-	429,691	28,681	31,831	27,664	19,355	152	2,024,538	339,897
2029	-	-	295,000	60,925	-	-	146,250	485,000	24,850	-	438,064	23,065	32,800	26,696	-	-	1,250,895	282,654
2030	-	-	300,000	54,925	-	-	146,250	495,000	15,050	-	446,643	13,486	33,797	25,698	-	-	1,276,443	256,407
2031	-	-	305,000	48,925	-	-	146,250	505,000	5,050	-	356,300	3,779	34,825	24,737	-	-	1,200,697	229,702
2032	-	-	315,000	42,825	350,000	350,000	146,250	505,000	-	-	-	-	34,825	24,737	-	-	699,825	213,812
2033	-	-	325,000	36,525	375,000	375,000	128,750	505,000	-	-	-	-	35,684	23,611	-	-	735,884	188,886
2034	-	-	330,000	29,213	400,000	400,000	110,000	505,000	-	-	-	-	36,976	22,520	-	-	766,976	161,733
2035	-	-	335,000	21,788	425,000	425,000	90,000	505,000	-	-	-	-	38,101	21,395	-	-	798,101	133,183
2036	-	-	300,000	14,250	450,000	450,000	68,750	505,000	-	-	-	-	39,259	20,291	-	-	789,259	103,291
2037	-	-	300,000	7,125	450,000	450,000	46,250	505,000	-	-	-	-	40,453	19,042	-	-	790,453	72,417
2038	-	-	-	-	470,000	470,000	23,750	505,000	-	-	-	-	41,684	17,812	-	-	511,684	41,562
2039	-	-	-	-	-	-	-	505,000	-	-	-	-	42,952	16,594	-	-	42,952	16,544
2040	-	-	-	-	-	-	-	505,000	-	-	-	-	44,258	15,278	-	-	44,258	15,278
2041	-	-	-	-	-	-	-	505,000	-	-	-	-	46,604	13,891	-	-	46,604	13,891
2042	-	-	-	-	-	-	-	505,000	-	-	-	-	46,991	12,504	-	-	46,991	12,504
2043	-	-	-	-	-	-	-	505,000	-	-	-	-	48,421	11,075	-	-	48,421	11,075
2044	-	-	-	-	-	-	-	505,000	-	-	-	-	49,894	9,628	-	-	49,894	9,628
2045	-	-	-	-	-	-	-	505,000	-	-	-	-	51,411	8,065	-	-	51,411	8,065
2046	-	-	-	-	-	-	-	505,000	-	-	-	-	52,975	6,521	-	-	52,975	6,521
2047	-	-	-	-	-	-	-	505,000	-	-	-	-	54,586	49,010	-	-	54,586	49,010
2048	-	-	-	-	-	-	-	505,000	-	-	-	-	56,246	3,258	-	-	56,246	3,258
2049	-	-	-	-	-	-	-	505,000	-	-	-	-	57,967	1,539	-	-	57,967	1,539
2050	\$ 5,465,000	\$ 1,409,638	\$ 5,410,000	\$ 1,240,651	\$ 2,920,000	\$ 2,515,000	\$ 5,850,000	\$ 792,500	\$ 58,600	\$ 5,150,749	\$ 754,931	\$ 1,207,342	\$ 701,182	\$ 352,538	\$ 57,065	\$ 27,325,629	\$ 7,629,537	

City of Manchester, Tennessee
 Schedule of Assessed Property Tax Values,
 Property Tax Rates and Changes in Property Taxes Receivable
 For the Year Ended June 30, 2018

Tax Year	Tax Rate	Assessed Value	Original Levy	Balance July 1, 2017	Property Tax Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	Allowance for Uncollectible	Net Receivable Balance June 30, 2018
2018	1.9316					4,472,498			32,127	4,440,371
2017	2.2999	238,463,091	4,933,336		4,933,336		(64,227)	4,601,901	20,549	246,659
2016	2.2999	210,695,655	4,845,752	326,393			(10,849)	156,478	5,245	153,820
2015	2.2999	205,498,253	4,725,424	108,244			(374)	85,935	7,523	14,412
2014	2.2999	202,117,409	4,648,498	9,872			7,489	17,361	-	-
2013	2.2999	200,337,660	4,607,596	155,244				5,684	24,853	124,707
2012	2.2999	199,239,840	4,582,317	60,963				2,206	37,432	21,324
2011	2.2999	198,802,639	4,572,262	-			476	476	-	-
2010 and Before							2,085	2,085	-	-
Totals				\$ 660,716	\$ 4,933,336	\$ 4,472,498	\$ (65,400)	\$ 4,872,126	\$ 127,729	\$ 5,001,293

NOTES: All uncollected taxes for years prior to 2016 were turned over to the Clerk and Master for collection.

OTHER INFORMATION SECTION

City of Manchester, Tennessee
Schedule of Utility Rate Structure and Number of Customers
June 30, 2018

	2017-2018		2016-2017		2015-2016		2014-2015	
	Water	Sewer	Water	Sewer	Water	Sewer	Water	Sewer
<u>Within Corporate Limits</u>								
Up to and including 2,000 gallons	\$8.60	\$10.82	\$8.60	\$10.82	\$8.60	\$10.82	\$8.60	\$10.82
Next 98,000 gallons per 1,000 gallons	\$4.30	\$5.41	\$4.30	\$5.41	\$4.30	\$5.41	\$4.30	\$5.41
All over the next 100,000 gallons per 1,000 gallons	\$3.42	\$4.30	\$3.42	\$4.30	\$3.42	\$4.30	\$3.42	\$4.30
Unmetered Residential Customers		\$25.74		\$25.74		\$25.74		\$25.74
<u>Outside Corporate Limits</u>								
One and one-half times inside rate - Industrial								
Two time inside rate - Residential and Commercial								
<u>Number of Customers</u>								
Residential - Inside of City	4,224	4,113	4,267	4,175	4,267	4,175	4,215	4,124
Residential - Outside of City	1,877	11	1,989	10	1,989	10	1,965	10
Commercial - Inside of City	680	605	677	601	677	601	669	594
Commercial - Outside of City	73	10	96	11	96	11	95	11
Industrial - Inside of City	14	12	11	11	11	11	11	11
Industrial - Outside of City	54	32	30	28	30	28	30	28
Total	6,922	4,783	7,070	4,836	7,070	4,836	6,985	4,778

See independent auditor's report.

**AWWA Free Water Audit Software:
 Reporting Worksheet**

WAS v5.0
 American Water Works Association
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? Click to access definition
 + Click to add a comment

Water Audit Report for: **City of Manchester Water & Sewer Department (0000429)**
 Reporting Year: **2017** / **7/2017 - 6/2018**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: **MILLION GALLONS (US) PER YEAR**

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

Master Meter and Supply Error Adjustments

WATER SUPPLIED

Volume from own sources: + ? MG/Yr
 Water imported: + ? MG/Yr
 Water exported: + ? MG/Yr

Master Meter and Supply Error Adjustments

Pcnt: MG/Yr
 Value: MG/Yr

Enter negative % or value for under-registration
 Enter positive % or value for over-registration

WATER SUPPLIED: 689.334 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered: + ? MG/Yr
 Billed unmetered: + ? MG/Yr
 Unbilled metered: + ? MG/Yr
 Unbilled unmetered: + ? MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 643.990 MG/Yr

Click here: ? for help using option buttons below

Pcnt: MG/Yr
 Value: MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: MG/Yr
 Value: MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) 45.344 MG/Yr

Apparent Losses

Unauthorized consumption: + ? MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: + ? MG/Yr
 Systematic data handling errors: + ? MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 3.293 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? MG/Yr

WATER LOSSES: 45.344 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: + ? miles
 Number of active AND inactive service connections: + ?
 Service connection density: ? conn./mile main

Are customer meters typically located at the curbside or property line? (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: + ? ft
 Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: + ? psi

COST DATA

Total annual cost of operating water system: + ? \$/Year
 Customer retail unit cost (applied to Apparent Losses): + ? \$/1000 gallons (US)
 Variable production cost (applied to Real Losses): + ? \$/Million gallons Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 92 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

- PRIORITY AREAS FOR ATTENTION:**
- Based on the information provided, audit accuracy can be improved by addressing the following components:
- 1: Unauthorized consumption
 - 2: Systematic data handling errors
 - 3: Customer metering inaccuracies

**AWWA Free Water Audit Software:
 System Attributes and Performance Indicators**

Water Audit Report for:
 Reporting Year:

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 92 out of 100 ***

System Attributes:

Apparent Losses:	<input type="text" value="3.293"/>	MG/Yr
+ Real Losses:	<input type="text" value="42.051"/>	MG/Yr
= Water Losses:	<input type="text" value="45.344"/>	MG/Yr
? Unavoidable Annual Real Losses (UARL):	<input type="text" value="48.98"/>	MG/Yr
Annual cost of Apparent Losses:	<input type="text" value="\$14,588"/>	
Annual cost of Real Losses:	<input type="text" value="\$52,564"/>	

Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="8.9%"/>	
	Non-revenue water as percent by cost of operating system:	<input type="text" value="3.3%"/>	
Operational Efficiency:	Apparent Losses per service connection per day:	<input type="text" value="1.23"/>	gallons/connection/day
	Real Losses per service connection per day:	<input type="text" value="15.70"/>	gallons/connection/day
	Real Losses per length of main per day*:	<input type="text" value="N/A"/>	
	Real Losses per service connection per day per psi pressure:	<input type="text" value="0.26"/>	gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):			
	? Infrastructure Leakage Index (ILI) [CARL/UARL]:	<input type="text" value="42.05"/>	million gallons/year
		<input type="text" value="0.86"/>	

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

**City of Manchester, Tennessee
Schedule of Transfers
For the Year Ended June 30, 2018**

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Sanitation	To Provide Funding for Operations	\$ 70,000
General	Recreation	To Provide Funding for Operations	557,500
General	Schools	To Provide Funding for Operations	1,858,467
General	Tourism	Reimbursement from Hotel Audit	18,250
General	Capital Equipment	To Provide Funding for Operations	715,000
General	Debt Service	To Provide Funding for Debt	1,437,652
Recreation	Debt Service	To Provide Funding for Debt	108,229
Sanitation	Debt Service	To Provide Funding for Debt	56,626
			<hr/>
			<hr/>
Total Transfers			<u>\$ 4,821,724</u>

See independent auditor's report.

SINGLE AUDIT SECTION

City of Manchester, Tennessee
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Contract Number	Expenditures
U.S. Department of Agriculture			
Passed Through Tennessee Department of Education			
Child Nutrition Cluster:			
National School Breakfast Program	10.553		140,382
National School Lunch Program	10.555		497,660
Summer Food Service Program - Lunch	10.559		7,408
Passed Through Tennessee Department of Agriculture Commodity Supplemental Food Program	10.565		58,076
Total U.S. Department of Agriculture			703,526
U.S. Department of Justice			
Bulletproof Vest Partnership	16.607		1,316
U. S. Department of Housing and Urban Development			
Home Investment Partnership Program	14.239	HM-14-13	5,000
U.S. Department of Transportation			
Passed through Tennessee Department of Transportation			
Highway Planning & Construction Cluster:			
Highway Planning and Construction - Signal Maintenance	20.205	16001-3177-44	104
Highway Planning and Construction - Safe Routes to School	20.205	16LPLM-F3-030	2,174
Highway Planning and Construction - Transportation Master Plan	20.205	16LPLM-F0-026	8,927
			11,205
Alcohol Open Container Requirements	20.607	Z17THS226	1,879
Alcohol Open Container Requirements	20.607	Z18THS190	13,147
Total U. S. Department of Transportation			26,231
Appalachian Regional Commission:			
Pass-through Tennessee Department of Economic and Community Development:			
Appalachian Area Development Supplemental and Direct Grants	23.002	33004-39116	57,663
U.S. Department of Education:			
Passed-through Tennessee Department of Education:			
Special Education Cluster:			
Special Education Grants to States	84.027	H027A170052	482,848
Special Education - Preschool Grants	84.173	H173A170095	65,869
			548,717
Title I, Part A	84.010	5010A170042	414,712
Rural Education Achievement Program	84.358	S358B170042	25,741
English Language Acquisition Grants	84.365	S365A170042	19,535
Title II, Part A	84.367	S367A170040	36,919
Student Support and Academic Enrichment Program	84.424	S424A170044	11,411
Passed-through National Institute for Excellence in Teaching:			
Teacher Incentive Fund	84.374	N/A	457,865
Total U.S. Department of Education			1,514,900
TOTAL EXPENDITURES OF FEDERAL AWARDS			2,308,636
STATE AWARDS			
Tennessee Department of Health			
Project Diabetes Initiative Services	N/A	GG-17-50171-00	17,547
Tennessee Department of Education			
Coordinated School Health Initiative	N/A	N/A	81,000
Family Resource Center Grant	N/A	N/A	59,223
Safe Schools Act 2003	N/A	N/A	7,530
Voluntary Pre-K	N/A	N/A	287,882
Total Tennessee Department of Education			435,635
Tennessee Department of Economic and Community Development			
LEAP Grant	N/A	N/A	107,377
Rural Economic Opportunity - Site Development	N/A	N/A	104,517
Tennessee Downtown Revitalization	N/A	N/A	23,363
Tourism Enhancement Grant	N/A	N/A	57,607
Total Tennessee Department of Economic and Community Development			292,864
Tennessee Department of Tourist Development			
Local Park and Recreation	N/A	N/A	105,000
Tourism and Community Development	N/A	N/A	13,067
Total Tennessee Department of Tourism Development			118,067
TOTAL EXPENDITURES OF STATE AWARDS			864,113
TOTAL EXPENDITURE OF FEDERAL AND STATE AWARDS			3,172,749

See Independent Auditor's Report and notes to schedule of expenditures of federal and state awards

CITY OF MANCHESTER, TENNESSEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state financial assistance activity of the City under programs of the federal government and State of Tennessee for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10% *de minimis* indirect cost rate allowed under the Uniform Guidance.

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Tullahoma, Tennessee

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund, general purpose school fund, and debt service fund, and the aggregate remaining fund information of the City of Manchester, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Manchester, Tennessee's basic financial statements and have issued our report thereon dated December 27, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify deficiencies in internal control that we

603 NW Atlantic Street, Tullahoma, Tennessee 37388

Phone (931) 393-3307

Fax (931) 563-5585

consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (**Findings 2018-001, 2018-002, 2018-004, 2018-005, and 2018-006**)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manchester, Tennessee's financial statements are free from 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 four instances of noncompliance or other matters that is required to be reported under *Governmental Auditing Standards* and are described in the accompanying schedule of findings and questioned costs. (**Findings 2018-003, 2018-007, 2018-008, and 2018-009**)

City of Manchester, Tennessee's Response to Findings

The City of Manchester, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and in the accompanying corrective action plan. The City of Manchester, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

MG Group, P.C.

Tullahoma, Tennessee
December 27, 2018

The MG Group, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Tullahoma, Tennessee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Manchester, Tennessee's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance 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, 2018.

603 NW Atlantic Street, Tullahoma, Tennessee 37388

Phone (931) 393-3307

Fax (931) 563-5585

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MG Group, P.C.

Tullahoma, Tennessee
December 27, 2018

**City of Manchester, Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

PART I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. Our report on the financial statements of the City of Manchester is unmodified.
2. Internal Control Over Financial Reporting:
 - Material weakness identified? NO
 - Significant deficiency identified? YES
3. Noncompliance material to the financial statement noted? YES

Federal Awards:

4. Internal Control Over Major Federal Programs:
 - Material weakness identified? NONE REPORTED
 - Significant deficiency identified? NONE REPORTED
5. Type of report auditor issued on compliance for Major program: UNMODIFIED
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? NONE REPORTED
7. Identification of Major Federal Programs:

CFDA Number	
10.553,10.555,10.559 & 10.565	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program and Commodity Supplemental Food Program

CFDA Number	
84.027 & 84.173	Special Education Cluster: Special Education Grants to States and Special Education - Preschool Grants

CFDA Number 84.010	Title I, Part A
---------------------------	-----------------

8. Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000
9. Auditee qualified as low-risk auditee? NO

City of Manchester, Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

City General Government

FINDING 2018-001: (Repeat 2015-002) RECEIVABLES- RECREATION CENTER
(Internal Control – Significant Deficiency under *Government Auditing Standards*)

Condition: As of June 30, 2018, accounts receivable in the Manchester Recreation Center totaled \$87,048 of which \$62,321 was shown in the aging report at over 120 days. The general ledger balance totaled \$97,489 which required a proposed audit adjustment of \$10,471. Collection of these amounts does not appear to be likely. These receivables do not appear to have been reviewed and no determination of uncollectible accounts has been made.

Criteria: Short term accounts receivable should be reconciled on a monthly basis. Collectibility of accounts should be determined by management and action taken to prevent the situation in future periods.

Effect: Accounts Receivable that are not collectible falsely inflate the assets of the fund. In addition, any receivables that are not available for current period expenses should be included in deferred inflows to offset this asset.

Recommendation: Receivables should be periodically reviewed and a listing of accounts that are determined to be uncollectable should be prepared and submitted to the Board of Mayor and Aldermen for approval to be written off.

Management's Response: We concur with this finding. See corrective action plan.

FINDING 2018-002: (Repeat 2016-002) VOIDED AND/OR ADJUSTING ENTRIES MADE TO CASH COLLECTIONS WITHOUT APPROPRIATE DOCUMENTATION OR APPROVAL - RECREATION DEPARTMENT (Internal Control – Significant Deficiency under *Government Auditing Standards*)

Condition: Debit entries to revenue accounts were routinely made to correct prior credit entries supposedly made in error. However; personnel did not provide any documentation of the error nor an approval from management to make the correction. In addition, the same user made the original entry and the correcting entry.

Criteria: The City's Manual on Internal Control Policies prohibits a single individual from entering a transaction and also reversing that transaction.

Effect: Without proper segregation of duties, individuals are placed at risk should questions regarding the protection of assets arise.

Recommendation: To prevent fraud and/or abuse of city funds, adjustments involving cash collections should have proper supporting documentation. This documentation should include the nature of the adjustment as well as the approval of management.

Management's Response: We concur with this finding. See corrective action plan.

City of Manchester, Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

FINDING 2018-003: (Repeat 2015-003) BUDGETED EXPENDITURES IN EXCESS OF APPROPRIATIONS (Noncompliance under *Government Auditing Standards*)

Condition: The General Fund exceeded appropriations at the level of control for Health, Welfare, and Recreation by \$25,126.

Criteria: *Tennessee Code Annotated*, Section 6-56-203(1) states in part: ...all moneys received and expended by a municipality shall be included in a budget ordinance. Therefore, notwithstanding any other law, no municipality may expend any moneys regardless of their source, including moneys derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments, except in accordance with a budget ordinance....

Effect: Expenditures made in excess of budgeted amounts could result in a loss of control over financial operations by the governing body.

Recommendation: Expenditures should be held within appropriations approved by the Board of Mayor and Aldermen.

Management's Response: We concur with this finding. See corrective action plan.

FINDING 2018-004: SUBSIDIARY RECORDS NOT RECONCILED TO GENERAL LEDGER CONTROL ACCOUNTS (Internal Control – Significant Deficiency under *Government Auditing Standards*)

Condition: During the audit, we were unable to reconcile the financial statements to the underlying subsidiary records in the following areas: capital assets in the general and water and sewer funds; property taxes receivable; payroll liabilities, and interfund receivables and payables.

Criteria: *Tennessee Code Annotated*, Section 9-2-102 requires that Municipalities must maintain records sufficient and necessary to comply with legal provisions and generally accepted accounting principles. GAAP requires that underlying records of original entry be periodically reconciled to a control account.

Cause: It appears that transactions are being posted directly to the general ledger control accounts. In addition, a lack of staff who are adequately trained to perform day-to-day accounting functions is also a factor.

Effect: A lack of reconciliation between subsidiary and control accounts results in the possibility of material misstatements of the financial statements.

Recommendation: Management should ensure that all transactions are entered in the "books of original entry"; that the subsidiary records are reconciled on a monthly basis; and that accounting staff receive adequate training on how to accomplish these tasks.

Management's Response: We concur with this finding. See corrective action plan.

City of Manchester, Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

FINDING 2018-005: MATERIAL AUDITOR PROPOSED ADJUSTING ENTRIES (Internal Control – Significant Deficiency under *Government Auditing Standards*)

Condition: During the audit, we proposed significant adjustments to various assets, liability, and equity accounts so that the City's financial statements would conform to generally accepted accounting principles.

Criteria: *Tennessee Code Annotated*, Section 9-2-102 requires that Municipalities must maintain records sufficient and necessary to comply with legal provisions and generally accepted accounting principles.

Cause: As noted in Finding 2018-004, the City's subsidiary records are not being reconciled on a regular basis.

Effect: The financial statements were materially misstated prior to audit and material adjustments were required to fairly state net position, capital assets, pooled cash, and property tax receivables.

Recommendation: If management will correct the condition referred to in Finding 2018-004, it should correct this one as well.

Management's Response: We concur with this finding. See corrective action plan.

Manchester City Schools

FINDING 2018-006 (Repeat 2017-005) NONCOMPLIANCE WITH T.C.A TITLE 9 CHAPTER 2 SECTION 102. (Internal Control – Significant Deficiency under *Government Auditing Standards*)

Condition: At fiscal year end, Manchester City Schools had checks totaling at least \$466,296 that were dated June 30, 2018 but were not listed on the June bank reconciliation performed in July. It appears that the check register for the school's clearing account was not submitted to the city's finance department in a timely manner, resulting in a discrepancy between the bank account balance and the general ledger.

Criteria: *Tennessee Code Annotated*, Section 9-2-102 requires that Municipalities must maintain records sufficient and necessary to comply with legal provisions and generally accepted accounting principles. GAAP requires that procedures for a proper cut-off for revenues and expenditure recognition be maintained.

Effect: The failure of a subsidiary ledger or check register to agree with the general ledger causes issues when trying to determine outstanding checks at year-end and circumvents internal controls over cash disbursements and recording of expenditures.

Recommendation: Management should ensure that all disbursements are recorded the day the disbursement is made.

City of Manchester, Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Management's Response: We concur with this finding. See corrective action plan.

FINDING 2018-007 (Repeat 2017-006) NONCOMPLIANCE WITH T.C.A 6-56-111- DEPOSIT ACCOUNTS NOT CARRIED ON THE GENERAL LEDGER (Noncompliance under *Government Auditing Standards*)

Condition: The Manchester City School system maintains four separate bank accounts for clearing payroll liabilities that are not shown on the general ledger. They include accounts for 1) retirement; 2) payroll taxes; 3) health, dental & life insurance; and 4) Great Western life insurance.

Criteria: TCA Section 6-56-111(c) states in part, "Every municipal official authorized to disburse public funds shall be required to make disbursements of such public funds...drawn on the municipality's official bank account or accounts."

Effect: The municipality does not control disbursement of public funds in these accounts.

Recommendation: Ensure that all deposit accounts controlled by the entity are added to and accounted for within the general ledger.

Management's Response: We concur with this finding. See corrective action plan.

FINDING 2018-008: DEPOSIT WITH FINANCIAL INSTITUTION IN EXCESS OF REQUIRED COLLATERAL PLEDGES (Noncompliance under *Government Auditing Standards*)

Condition: Manchester City Schools had uncollateralized, uninsured deposits with First National Bank of \$585,399 and uncollateralized, *uninsured* deposits with Coffee County Bank of at least \$198,360 at June 30, 2018.

Criteria: Tennessee Code Annotated, Title 6, Chapter 56, Section 110 states in part: ... any municipal funds deposited with a financial institution shall be secured by collateral in the same manner and under the same conditions as state deposits under title 9, chapter 4, parts 1 and 4, or as provided in the collateral pool created under title 9, chapter 4, part 5. These statutes generally require collateralization of 105% on all deposits above the FDIC/FSLIC insured amounts.

Effect: Amounts in excess of deposit insurance and pledged collateral would be subject to loss upon failure of the depository institution.

Recommendation: Management should either:

- 1) obtain pledged collateral based on a monthly analysis of the School's cash deposits,
or
- 2) deposit funds with other banks who participate in the State Collateral Pool.

Management's Response: We concur with this finding. See corrective action plan.

City of Manchester, Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

FINDING 2018-009: BUDGETED EXPENDITURES IN EXCESS OF APPROPRIATIONS
(Noncompliance under *Government Auditing Standards*)

Condition: Manchester City Schools' Central Cafeteria Fund expenditures exceeded appropriations at the level of control for Food Services by \$32,174.

Criteria: *Tennessee Code Annotated*, Section 6-56-203(1) states in part: ...all moneys received and expended by a municipality shall be included in a budget ordinance. Therefore, notwithstanding any other law, no municipality may expend any moneys regardless of their source, including moneys derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments, except in accordance with a budget ordinance....

Effect: Expenditures made in excess of budgeted amounts could result in a loss of control over financial operations by the governing body.

Recommendation: Expenditures should be held within appropriations approved by the Board of Mayor and Aldermen.

Management's Response: We concur with this finding. See corrective action plan.

PART III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards.

**CITY OF MANCHESTER, TENNESSEE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2018**

Government Audit Standards require auditors to report the status of uncorrected findings for prior audits. In addition, OMB's Uniform Guidance requires auditees to report the status of all prior-year findings whether corrected or uncorrected. Presented below are financial statement findings along with their current status from the financial statements for the City of Manchester, Tennessee, for year ended June 30, 2017.

Prior year Financial Statement Findings

Fiscal Year	Page Number	Finding Number	Title of Finding	CFDA Number	Current Status
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City General Government

2015	169	2015-002	Receivables for the Recreation Center.	N/A	Repeated Finding 2018-001
2015	169	2015-003	Budgeted Expenditure in Excess of Appropriations.	N/A	Repeated Finding 2018-003
2015	170	2015-004	Deposit with Financial Institution in Excess of Pledged Collateral	N/A	Corrected
2015	170	2015-010	Cash Overdraft in the Recreation Fund	N/A	Corrected
2016	171-172	2016-002	Adjusting Entries made to Cash Collection without Documentation or Approval	N/A	Repeated Finding 2018-002

Manchester City Schools

2017	112	2017-005	Outstanding Checks Not Reconciled to General Ledger	N/A	Repeated 2018-006
2017	113	2017-006	Deposit Accounts Not Carried on General Ledger	N/A	Repeated 2018-007

Prior year Federal Award Findings

There were no prior-year federal award findings or questioned costs to report.



CITY OF MANCHESTER

200 W. Fort Street
Manchester, Tennessee 37355
931-728-4652
931-728-8244 FAX



Management's Corrective Action Plan For the Fiscal Year Ended June 30, 2018

FINDINGS RELATING TO THE FINANCIAL STATEMENTS

FINDING 2018-001: (Repeat 2015-002) RECEIVABLES-RECREATION CENTER (Internal Control – Significant Deficiency under *Government Auditing Standards*)

Recommendation: Receivables should be periodically reviewed and a listing of accounts that are determined to be uncollectable should be prepared and submitted to the Board of Mayor and Aldermen for approval to be written off.

Action Taken: We will review the policy regarding write-off of bad debts and address these issues with Parks and Recreation. We will set up procedures to follow in the future.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-002: (Repeat 2016-002) VOIDED AND/OR ADJUSTING ENTRIES MADE TO CASH COLLECTIONS WITHOUT APPROPRIATE DOCUMENTATION OR APPROVAL - RECREATION DEPARTMENT (Internal Control – Significant Deficiency under *Government Auditing Standards*)

Recommendation: To prevent fraud and/or abuse of city funds, adjustments involving cash collections should have proper supporting documentation. This documentation should include the nature of the adjustment as well as the approval of management.

Action Taken: We will review over the segregation of duties with Parks and Recreation, so a procedure can be put in place.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-003: (Repeat 2015-003) BUDGETED EXPENDITURES IN EXCESS OF APPROPRIATIONS
(Noncompliance under *Government Auditing Standards*)

Recommendation: Expenditures should be held within appropriations approved by the Board of Mayor and Aldermen.

Action Taken: The City understands that the law requires that municipalities maintain self-supporting funds. The City also realizes that the Health, Welfare, and Recreation Fund inadvertently closed the fiscal year with a deficit balance. We will review the law regarding budgeted expenditures in excess of appropriations with the Director.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-004: SUBSIDIARY RECORDS NOT RECONCILED TO GENERAL LEDGER CONTROL ACCOUNTS. (Internal Control-Significant Deficiency under *Government Auditing Standards*)

Recommendation: Management should ensure that all transactions are entered in the “books of original entry”; that the subsidiary records are reconciled on a monthly basis; and that accounting staff receive adequate training on how to accomplish these tasks.

Action Taken: We will make sure that each Finance Employee has adequate training on how to accomplish this.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-005: MATERIAL AUDITOR PROPOSED ADJUSTING ENTRIES. (Internal Control-Significant Deficiency under *Government Auditing Standards*)

Recommendation: If management will correct the condition referred to in Finding 2018-004, it should correct this one as well.

Action Taken: With training, we will make sure that this is accomplished.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-006: (Repeat 2017-005) NON-COMPLIANCE WITH T.C.A TITLE 9 CHAPTER 2 SECTION 102. (Internal Control-Significant Deficiency under *Government Auditing Standards*)

Recommendation: Management should ensure that all disbursements are recorded the day the disbursement is made.

Action Taken: We will discuss this finding with the Manchester City Schools, so corrective action can be taken to ensure this will not occur again.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-007: (Repeat 2017-006) NONCOMPLIANCE WITH T.C.A 6-56-111- DEPOSIT ACCOUNTS NOT CARRIED ON THE GENERAL LEDGER (Noncompliance under *Government Auditing Standards*)

Recommendation: Ensure that all deposit accounts controlled by the entity are added to and accounted for within the general ledger.

Action Taken: We will discuss this finding with the Manchester City Schools, so corrective action can be taken to ensure this will not occur again.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-008: DEPOSIT WITH FINANCIAL INSTITUTION IN EXCESS OF REQUIRED COLLATERAL PLEDGES (Noncompliance under *Government Auditing Standards*)

Recommendation: Management should either:

- 1) Obtain pledged collateral based on a monthly analysis of the School's cash deposits, or
- 2) Deposit funds with other banks who participate in the State Collateral Pool.

Action Taken: We will discuss this finding with the Manchester City Schools, so corrective action can be taken to ensure this will not occur again.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019

FINDING 2018-009: BUDGETED EXPENDITURES IN EXCESS OF APPROPRIATIONS (Noncompliance under *Government Auditing Standards*)

Recommendation: Expenditures should be held within appropriations approved by the Board of Mayor and Aldermen.

Action Taken: We will discuss this finding with the Manchester City Schools, so corrective action can be taken to ensure this will not occur again.

Name of Contact Person: Bridget Anderson, Finance Director

Anticipated Completion Date: December 31, 2019