

CITY OF GARNER

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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CITY OF GARNER

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ivan Dodd	Mayor	Jan 2006
Gerald Pedersen	Mayor Pro tem	Jan 2006
Dick Voortmann	Council Member	Jan 2006
George Smith	Council Member	Jan 2006
Deb Schmidt	Council Member	Jan 2008
Karl Bauer	Council Member	Jan 2008
Daisy Huffman	City Clerk	Indefinite
Howard Parrott	City Administrator	Indefinite
Philip Garland	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garner, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Garner's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garner as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005 on our consideration of the City of Garner's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Garner's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2005

Renner & Birchem, P.C.

BASIC FINANCIAL STATEMENTS

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:						
Governmental activities:						
Public safety	\$ 435,756		11,796	(423,960)		(423,960)
Public works	620,565	127,744	242,952	(249,869)		(249,869)
Health and social services	10,350			(10,350)		(10,350)
Culture and recreation	270,778	44,677	26,325	(199,776)		(199,776)
Community and economic development	662,327			(662,327)		(662,327)
General government	165,523	375		(165,148)		(165,148)
Debt service	815,124			(815,124)		(815,124)
Capital projects	37,943			(37,943)		(37,943)
Total governmental activities	3,018,366	172,796	281,073	(2,564,497)		(2,564,497)
Business type activities:						
Water	170,956	227,216			56,260	56,260
Sewer	192,556	202,565			10,009	10,009
Storm sewer	7,838	56,369			48,531	48,531
Total business type activities	371,350	486,150			114,800	114,800
Total	\$ 3,389,716	658,946	281,073	(2,564,497)	114,800	(2,449,697)
General Receipts:						
Property tax levied for:						
General purposes				449,098		449,098
Tax increment financing				260,283		260,283
Employee benefits and insurance				139,675		139,675
Debt service				221,669		221,669
Local option sales tax				176,170		176,170
Grants and contributions not restricted to specific purpose				14,045		14,045
Unrestricted interest on investments				29,667	14,408	44,075
Miscellaneous				920,496	25,756	946,252
Loan proceeds				200,000		200,000
Sale of assets				172,250		172,250
Transfers				191,705	(191,705)	
Total general receipts and transfers				2,775,058	(151,541)	2,623,517
Change in cash basis net assets				210,561	(36,741)	173,820
Cash basis net assets beginning of year				1,727,679	904,953	2,632,632
Cash basis net assets end of year				\$ 1,938,240	868,212	2,806,452
Cash Basis Net Assets						
Restricted:						
Streets				124,209		124,209
Urban renewal purposes				46,673		46,673
Debt service				34,903		34,903
Other purposes				1,017,041		1,017,041
Unrestricted				715,414	868,212	1,583,626
Total cash basis net assets				\$ 1,938,240	868,212	2,806,452

See notes to financial statements.

City of Garner

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

As of and for the year ended June 30, 2005

	General	Road Use Tax	Urban Renewal Tax Increment	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 449,098			221,669	139,675	810,442
Tax increment financing collections			260,283			260,283
Other city tax					176,170	176,170
Licenses and permits	33,532					33,532
Use of money and property	117,377				11,056	128,433
Intergovernmental	52,166	242,952				295,118
Charges for services	172,796					172,796
Special assessments	1,048					1,048
Miscellaneous	626,970	2,711			157,469	787,150
Total receipts	1,452,987	245,663	260,283	221,669	484,370	2,664,972
Disbursements:						
Operating:						
Public safety	363,865				72,734	436,599
Public works	97,742	483,122			38,514	619,378
Health and social services	10,350					10,350
Culture and recreation	246,210				25,068	271,278
Community and economic development	574,498		10,424		77,405	662,327
General government	138,631				26,946	165,577
Debt service				815,124		815,124
Capital projects					37,943	37,943
Total disbursements	1,431,296	483,122	10,424	815,124	278,610	3,018,576
Excess (deficiency) of receipts over (under) disbursements	21,691	(237,459)	249,859	(593,455)	205,760	(353,604)
Other financing sources (uses):						
Operating transfers in	27,988	134,000	35,604	589,718	19,000	806,310
Operating transfers out	(3,000)		(380,965)		(230,640)	(614,605)
Loan proceeds					200,000	200,000
Sale of assets					172,250	172,250
Total other financing sources (uses)	24,988	134,000	(345,361)	589,718	160,610	563,955
Net change in cash balances	46,679	(103,459)	(95,502)	(3,737)	366,370	210,351
Cash balances beginning of year	644,623	227,668	142,175	38,640	650,671	1,703,777
Cash balances end of year	\$ 691,302	124,209	46,673	34,903	1,017,041	1,914,128
Cash Basis Fund Balances						
Reserved:						
Debt service				34,903		34,903
Unreserved:						
General fund	\$ 691,302					691,302
Special revenue funds		124,209	46,673		865,118	1,036,000
Permanent fund					151,923	151,923
Total cash basis fund balances	\$ 691,302	124,209	46,673	34,903	1,017,041	1,914,128

See notes to financial statements.

City of Garner

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2005

Total governmental funds cash balances (page 16) **\$ 1,914,128**

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

24,112

Cash basis net assets of governmental activities (page 15) **\$ 1,938,240**

Net change in cash balances (page 16) **\$ 210,351**

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

210

Change in cash balance of governmental activities (page 15) **\$ 210,561**

See notes to financial statements.

City of Garner

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

As of and for the year ended June 30, 2005

	Enterprise Funds				Internal Service Funds		
	Water	Sewer	Storm Sewer	Total	Employee Health	Flex Plan	Total
Operating receipts:							
Use of money and property	\$ 1,500			1,500			
Charges for services	225,716	202,565	56,369	484,650	5,250	4,647	9,897
Total operating receipts	227,216	202,565	56,369	486,150	5,250	4,647	9,897
Operating disbursements:							
Governmental activities:							
Public safety					700	763	1,463
Public works					2,400	1,778	4,178
General government					1,000	1,300	2,300
Business type activities	172,483	192,556	7,838	372,877	243	260	503
Total operating disbursements	172,483	192,556	7,838	372,877	4,343	4,101	8,444
Excess (deficiency) of operating receipts over (under) operating disbursements	54,733	10,009	48,531	113,273	907	546	1,453
Non-operating receipts (disbursements):							
Special assessments			6,907	6,907			
Interest on investments	9,271	4,091	1,046	14,408	284		284
Miscellaneous		16,724	2,125	18,849			
Total non-operating receipts	9,271	20,815	10,078	40,164	284		284
Excess (deficiency) of receipts over (under) disbursements	64,004	30,824	58,609	153,437	1,191	546	1,737
Operating transfers out		(121,705)	(70,000)	(191,705)			
Net change in cash balances	64,004	(90,881)	(11,391)	(38,268)	1,191	546	1,737
Cash balances beginning of year	521,843	247,611	129,550	899,004	30,148	(297)	29,851
Cash balances end of year	\$ 585,847	156,730	118,159	860,736	31,339	249	31,588
Cash Basis Fund Balances							
Unreserved	\$ 585,847	156,730	118,159	860,736	31,339	249	31,588
Total cash basis fund balances	\$ 585,847	156,730	118,159	860,736	31,339	249	31,588

See notes to financial statements.

City of Garner

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2005

Total enterprise funds cash balances (page 18) **\$ 860,736**

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

7,476

Cash basis net assets of business type activities (page 15)

\$ 868,212

Net change in cash balances (page 18)

\$ (38,268)

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities

1,527

Change in cash balance of business type activities (page 15)

\$ (36,741)

See notes to financial statements.

CITY OF GARNER

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Garner is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Landfill of North Iowa Board, Hancock County Assessor's Conference Board, Hancock County Economic Development Corporation and Garner Area Community Betterment Association.

B. Basis of Presentation

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

The Statement of Activities and net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

CITY OF GARNER

Notes to Financial Statements (continued)

June 30, 2005

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

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

CITY OF GARNER

Notes to Financial Statements (continued)

June 30, 2005

The City reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

(2) Cash and Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF GARNER

Notes to Financial Statements (continued)

June 30, 2005

(2) Cash and Investments (con't)

The City's investments at June 30, 2005 are as follows:

	<u>Carrying</u> <u>Amount</u>	<u>Market</u> <u>Value</u>
Donated stock and stock funds	\$ <u>151,698</u>	\$ <u>248,755</u>

The donated stock and stock funds are included in the Trust Fund-Henschen Library Trust. The stock was bequested to the City in 1969 under the stipulation that the income therefrom only to be used for the general purposes of the Garner Public Library for a period of fifty years. Part of the stock originally received was sold on February 22, 1996 and the entire proceeds were reinvested in mutual funds in accordance with the terms of the original bequest. All of the investments are registered in the name of the Garner Public Library. The Public Library Board has control over the funds, First Citizens Trust Company, N.A. is the trustee.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and urban renewal tax increment financing revenue bonds are as follows:

Year Ending June 30,	General		Urban Renewal Tax Increment Financing (TIF) Revenue Bond		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 296,325	37,695	40,000	4,592	336,325	42,287
2007	299,253	25,779	40,000	3,444	339,253	29,223
2008	280,723	13,614	72,000	2,302	352,723	15,916
2009	77,661	2,038	72,000	1,148	149,661	3,186
2010			32,000		32,000	
2011			32,000		32,000	
2012			32,000		32,000	
2013			32,000		32,000	
2014			25,123		25,123	
Total	\$ <u>953,962</u>	<u>79,126</u>	<u>377,123</u>	<u>11,486</u>	<u>1,331,085</u>	<u>90,612</u>

In addition Homeward, Inc. loan balance outstanding at June 30, 2005 is \$194,385. Payments on these loan advances are made as the payments are received by the City with no set determined schedule of payments.

The City Council directed that \$125,000 be advanced to the Tax Increment Fund from the Water Utility Fund, and that \$100,000 be advanced to the Tax Increment Fund from the Sewer Utility Fund in order to pay the costs of the streets and utilities improvements within the Garner Urban Renewal Area 2003-1. This advance shall be treated as a loan (the "Loan") to the Tax Increment Fund and shall be repaid to the Water and Sewer Utility Funds out of incremental tax revenues received with respect to the Urban Renewal Area.

CITY OF GARNER

Notes to Financial Statements (continued)

June 30, 2005

(3) Bonds and Notes Payable (con't)

Payments on the Loan are subject to annual appropriation by the City Council and to the Council's determination that there are incremental tax revenues available for such purpose which have been allocated to or accrued in the tax Increment Fund.

Once appropriated, payments shall be made on the Loan on June 1 of each year to the extent there are incremental tax revenues available for such purpose which have been allocated to or accrued in the Tax Increment Fund. The right is hereby reserved to issue additional obligations, or to enter into additional loans, payable from the Tax Increment fund, which may either rank on a parity with the Loan or may have a priority over the Loan with respect to the revenues in the Tax Increment Fund.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$35,674, \$32,393, and \$31,429 respectively, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. Comp time hours are accumulated for subsequent use and are not paid upon termination or retirement. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for earned vacation termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2005</u>
Vacation	\$ 19,870
Comp	<u>3,406</u>
	\$ <u>23,276</u>

This liability has been computed based on rates of pay as of June 30, 2005.

CITY OF GARNER

Notes to Financial Statements

June 30, 2005

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option	\$ <u>27,988</u>
Special Revenue: Road Use	Local Option	134,000
TIF-Hejlik	Capital Project	<u>35,604</u>
		<u>169,604</u>
Capital Project	General	3,000
	Enterprise: Sewer	<u>16,000</u>
		<u>19,000</u>
Debt Service	Special Revenue: Tax Increment	380,965
	Revolving Loan-Housing	<u>33,048</u>
		<u>414,013</u>
	Enterprise: Storm Sewer	70,000
	Sewer	<u>105,705</u>
		<u>175,705</u>
Total		\$ <u>806,310</u>

(7) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$179 during the year ended June 30, 2005.

(8) Local Government Risk Pool

The City of Garner is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF GARNER

Notes to Financial Statements

June 30, 2005

(8) Local Government Risk Pool (con't)

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on the cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total of the current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Garner's annual contributions to the Pool for the year ended June 30, 2005 were \$48,916.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000 such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF GARNER

Notes to Financial Statements

June 30, 2005

(8) Local Government Risk Pool (con't)

The City of Garner also carries commercial insurance purchased from other insurers for surety bond coverage. The City assumes liability for any deductibles and claims in excess of coverage limitations. There have not been any claims from this risk in any of the past three fiscal years.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the public safety and community and economic development functions exceeded the amounts budgeted.

(10) Cooperative TIF Bond

Prairie Energy Cooperative and Corn Belt Power Cooperative, (Cooperatives), provided financing to cover a portion of the cost of infrastructure development in the Touchstone Energy Park, Garner Urban Renewal Area 1999-1. The Cooperatives TIF Bond is subordinate to the TIF note with payments on the bond to begin after payment on the note, \$42,296 per year, are satisfied. It is anticipated that the note payments will be completed by 2007 with payments on the Cooperative Bond to begin in 2008.

(11) Subsequent Events

On July 15, 2005, the City issued a Sewer Revenue Note in the amount of \$300,000. Interest is payable at the rate of 3.85% per annum, on December 1, 2005, and on each June 1 and December 1 thereafter until maturity. Principal on the Note is payable in five equal annual installments in the amount of \$42,857 each due June 1 in each of the years 2006 to 2011, inclusive, with one final installment of all remaining principal at maturity on June 1, 2012.

The City passed a resolution 2005-21 on May 24, 2005 calling on an election on the proposition of entering into a loan agreement, not to exceed \$2,500,000, for the purpose of constructing, finishing and equipping a municipal aquatic center. A special election was held in August 2005 with a favorable vote of at least 60% achieved. The City may enter into the loan agreement for such purpose.

On July 7, 2005 the City settled with North Iowa Sand and Gravel in the amount of \$10,000 for the 2004 street overlay project.

(12) Homeward, Inc. Loan

On October 26, 2004 the City entered into an agreement with Homeward, Inc., an Iowa non-profit corporation, agreeing to borrow up to a total of \$360,000. The loans are for the sole purpose of allowing the City to make subsequent loans to developers and builders in order to promote the availability of affordable housing in the Garner area. Each advance shall be in the amount of no more than \$60,000, for a term not to exceed two years, and shall be paid in full upon completion of construction and sale of home financed with proceeds of the note. The loans are full faith and credit obligations of the City. The balance outstanding at June 30, 2005 is \$194,385.

REQUIRED SUPPLEMENTARY INFORMATION

City of Garner

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less		Budgeted Amounts		Final to Net Variance
			Funds not Required to be Budgeted	Net	Original	Final	
Receipts:							
Property Tax	\$ 810,442			810,442	775,384	775,384	35,058
Tax increment financing collections	260,283			260,283	235,000	235,000	25,283
Other city tax	176,170			176,170	178,225	178,225	(2,055)
Licenses and permits	33,532			33,532	25,075	25,075	8,457
Use of money and property	128,433	16,192	5,563	139,062	57,175	57,175	81,887
Intergovernmental	295,118		9,897	285,221	271,009	271,009	14,212
Charges for services	172,796	494,547		667,343	670,591	670,591	(3,248)
Special assessments	1,048	6,907		7,955	5,850	5,850	2,105
Miscellaneous	787,150	18,849		805,999	140,750	615,750	190,249
Total receipts	2,664,972	536,495	15,460	3,186,007	2,359,059	2,834,059	351,948
Disbursements:							
Public safety	436,599	1,463	1,463	436,599	373,549	423,549	(13,050)
Public works	619,378	4,178	4,178	619,378	546,415	686,415	67,037
Health and social services	10,350			10,350	5,000	15,000	4,650
Culture and recreation	271,278		5,746	265,532	243,100	293,100	27,568
Community and economic development	662,327			662,327	86,500	536,500	(125,827)
General government	165,577	2,300	2,300	165,577	152,094	182,094	16,517
Debt service	815,124			815,124	586,530	836,530	21,406
Capital projects	37,943			37,943		60,000	22,057
Business type activities		373,380	503	372,877	441,286	491,286	118,409
Total disbursements	3,018,576	381,321	14,190	3,385,707	2,434,474	3,524,474	138,767
Excess (deficiency) of receipts over (under) disbursements	(353,604)	155,174	1,270	(199,700)	(75,415)	(690,415)	490,715
Other financing sources, net	563,955	(191,705)		372,250	100	200,100	172,150
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	210,351	(36,531)	1,270	172,550	(75,315)	(490,315)	662,865
Balances beginning of year	1,703,777	928,855	182,241	2,450,391	2,440,275	2,440,275	10,116
Cash balances end of year	\$ 1,914,128	892,324	183,511	2,622,941	2,364,960	1,949,960	672,981

See accompanying independent auditor's report.

City of Garner

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, Special Revenue Funds, Debt Service Fund, Capital Projects funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$675,000 and disbursements by \$1,090,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and community and economic development functions.

OTHER SUPPLEMENTARY INFORMATION

City of Garner

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

As of and for the year ended June 30, 2005

	Special Revenue						Capital Projects			Permanent	Total
	Housing Fund	Employee Benefits	Local Option Sales Tax	Crown Jewel	Industrial Revolving Loan	Retail Revolving Loan	Swimming Pool	Allen Street Sewer	Hejlik	Henschen Library Trust	
Receipts:											
Property Tax		139,675									139,675
Other city tax			176,170								176,170
Use of money and property	\$ 1,634	1,009	1,009	99	1,915	111				5,279	11,056
Miscellaneous	47,261				78,208	32,000					157,469
Total receipts	48,895	140,684	177,179	99	80,123	32,111				5,279	484,370
Disbursements:											
Operating:											
Public safety		72,734									72,734
Public works		38,514									38,514
Culture and recreation		19,322								5,746	25,068
Community and economic development	985				76,420						77,405
General government		26,946									26,946
Capital projects							3,000	16,000	18,943		37,943
Total disbursements	985	157,516			76,420		3,000	16,000	18,943	5,746	278,610
Excess (deficiency) of receipts over (under) disbursements	47,910	(16,832)	177,179	99	3,703	32,111	(3,000)	(16,000)	(18,943)	(467)	205,760
Other financing sources (uses):											
Operating transfers out	(33,048)		(161,988)						(35,604)		(230,640)
Operating transfers in							3,000	16,000			19,000
Loan Proceeds									200,000		200,000
Sale of assets	172,250										172,250
Total other financing sources (uses):	139,202		(161,988)				3,000	16,000	164,396		160,610
Net change in cash balances	187,112	(16,832)	15,191	99	3,703	32,111			145,453	(467)	366,370
Cash balances beginning of year	134,264	99,529	240,266	10,114	159,561				(145,453)	152,390	650,671
Cash balances end of year	\$ 321,376	82,697	255,457	10,213	163,264	32,111				151,923	1,017,041
Cash Basis Fund Balances											
Unreserved:											
Special revenue funds	\$ 321,376	82,697	255,457	10,213	163,264	32,111					865,118
Permanent fund										151,923	151,923
Total cash basis fund balances	\$ 321,376	82,697	255,457	10,213	163,264	32,111				151,923	1,017,041

See accompanying independent auditor's report.

City of Garner
 Schedule of Indebtedness
 Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Rate of Interest</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General obligation notes:								
Sewer improvement	2-1-97	4.60 - 5.50%	\$ 280,000	100,000		100,000		5,405
Essential corporate purpose	2-1-98	4.00 - 4.70	1,695,000	765,000		180,000	585,000	35,122
REC loan	3-1-00	0.00	330,000	183,332		36,667	146,665	
Water and sewer improvements	2-1-00	4.43	330,000	217,474		147,881	69,593	9,415
Essential corporate purpose	3-1-00	4.97	272,274	186,676		33,972	152,704	9,062
Homeward, Inc.	10-26-04	Variable			374,385	180,000	194,385	2,215
Total				1,452,482	374,385	678,520	1,148,347	61,219
Tax increment financing:								
Urban renewal tax increment	7-14-03	4.1	239,000	207,816		207,816		3,852
Prairie Energy TIF	7-01-03	0.00 - 8.00	217,123	217,123			217,123	
Hejlik 1st subdivision TIF	7-15-04	2.87	200,000		200,000	40,000	160,000	5,048
Total				424,939	200,000	247,816	377,123	8,900
Internal loans:								
Hejlik water TIF			125,000		125,000		125,000	
Hejlik sewer TIF			100,000		100,000		100,000	
Total					225,000		225,000	
Total				\$ 1,877,421	799,385	926,336	1,750,470	70,119

See accompanying independent auditor's report.

City of Garner

Note and Bond Maturities
June 30, 2005

General Obligation Bonds and Notes					
Year Ending June 30,	Essential Corporate Purpose		Water and Sanitary Sewer		Total
	Issued Feb 1, 1998		Issued Feb 1, 2000		
	Interest Rates	Amount	Interest Rates	Amount	
2006	4.55%	\$ 185,000	4.43%	39,213	
2007	4.60	195,000	4.43	30,380	
2008	4.70	205,000			
Total		<u>\$ 585,000</u>		<u>69,593</u>	

Year Ending June 30,	Fire Equipment		Municipal Building		Total
	Issued Mar 1, 2000		Issued Mar 1, 2000		
	Interest Rates	Amount	Interest Rates	Amount	
2006	0.00%	\$ 36,667	4.97%	35,445	296,325
2007	0.00	36,667	4.97	37,206	299,253
2008	0.00	36,667	4.97	39,056	280,723
2009	0.00	36,664	4.97	40,996	77,661
Total		<u>\$ 146,665</u>		<u>152,703</u>	<u>953,962</u>

Urban Renewal Tax					
	Hejliks 1st Subdivision		Prairie Energy TIF		Total
	Issued July 15, 2004		Issued July 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	
2006	2.87%	\$ 40,000	8.00%		40,000
2007	2.87	40,000	8.00		40,000
2008	2.87	40,000	0.00	32,000	72,000
2009	2.87	40,000	0.00	32,000	72,000
2010			0.00	32,000	32,000
2011			0.00	32,000	32,000
2012			0.00	32,000	32,000
2013			0.00	32,000	32,000
2014			0.00	25,123	25,123
Total		<u>\$ 160,000</u>		<u>217,123</u>	<u>377,123</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Garner, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 20, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Garner's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Garner's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Garner's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Garner's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Garner and other parties to whom the City of Garner may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

September 20, 2005

Renner & Birchem, P.C.

City of Garner

Schedule of Findings

Year Ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

- (A) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The areas of cash receipts and the disbursements, investments, and payroll under ideal conditions would be segregated.

Recommendation - We realize that with a limited number of employees segregation of duties is difficult. The City has implemented certain procedures to improve internal control. However, the City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this and continue to implement procedures where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Information Systems – The City does not have written policies for its’ computer based systems.

Recommendation – The City should develop written policies addressing the computer system issues such as; security, password changes, computer and internet usage, backup procedures and responsibility off-site storage and disaster plan. Backup of data needs to be done at a minimum of once a week.

Response – The City will review and work towards written policies.

Conclusion – Response accepted.

- (C) Fire Department and Library Transactions – Certain transactions were not properly authorized and were not supported by proper documentation. Proceeds from book sale were not properly turned over to City and were deposited in a separate library account.

Recommendation – All disbursements should be properly approved by the Council. Proceeds from sale of assets must be turned over to the City.

Response – We will work on correcting this.

Conclusion – Response accepted.

City of Garner

Schedule of Findings

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the Public Safety and Community and Economic Development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- (3) Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Garner Chamber	Christmas gifts	\$ 25.00
Dick Voortmann	Christmas party, food, refreshments	
	gifts-lottery tickets	221.63
Classic Catering	Christmas party food	712.00
Petals & Presents	Flower	15.00

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with recommendation.

Conclusion – Response accepted.

City of Garner

Schedule of Findings

Year Ended June 30, 2005

- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dick Voortmann, Council Member Owner Dick's Auto Body	Repair	\$ 179

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council members did not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- (6) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions.
- (7) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.