

CITY OF SUMNER
FINANCIAL STATEMENTS
JUNE 30, 2006

CITY OF SUMNER

INDEPENDENT AUDITOR'S REPORT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

**AUDITOR'S REPORT ON COMPLIANCE,
COMMENTS AND RECOMMENDATIONS**

JUNE 30, 2006

CITY OF SUMNER
TABLE OF CONTENTS

		<u>Page</u>
Officials		4
Independent Auditor's Report		6-7
Management's Discussion and Analysis		8-14
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	16-17
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	18-19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	20
Notes to Financial Statement		22-29
Required Supplemental Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		32-33
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	35
Schedule of Indebtedness	2	36
Bond and Note Maturities	3	37
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	38
Independent Auditor's Report on Compliance and 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		41-42
Schedule of Findings and Questioned Costs		43-46
Staff		47

CITY OF SUMNER

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January 2006		
Gary Walke	Mayor	January 2008
Dr. Richard Haw	Mayor Pro Tem	January 2006
Wayne Meyer	Council Member	January 2008
Billy Lehmkuhl	Council Member	January 2008
Linda Meier	Council Member	January 2006
Dave Meighan	Council Member	January 2006
After December 2005		
Gary Walke	Mayor	January 2008
Dr. Richard Haw	Mayor Pro Tem	January 2010
Wayne Meyer	Council Member	January 2008
Billy Lehmkuhl	Council Member	January 2008
Linda Meier	Council Member	January 2010
Dave Meighan	Council Member	January 2010
Melissa Wandro	City Clerk (before mid January 2006)	Indefinite
Lisa Oberbroeckling	City Clerk (after mid January 2006)	Indefinite
Marlowe Hoth	Public Works Director	Indefinite
Michael Stoessel	Treasurer	Indefinite
David Engelbrecht	City Attorney	Indefinite
Arlin Rieck	Chief of Police	Indefinite
Tim Duhrkopf	Fire Chief	Indefinite

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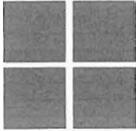
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SHAFFER COMPANY, P.C.

Certified Public Accountant

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Independent Auditor's Report

**To the Honorable Mayor and
Members of the City Council:**

I 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 Sumner, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sumner's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe that my audit provides a reasonable basis for my opinion.

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 my 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 Sumner as of June 30, 2006, 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, I have also issued my reports dated March 21, 2007 on my consideration of the City of Sumner's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 14 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

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My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Sumner's basic financial statements. I 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, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sumner provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 83.8%, or approximately \$1.185 million, from fiscal 2005 to fiscal 2006. Property tax decreased by approximately \$68,000.
- Disbursements increased 34.7%, or approximately \$587,000, in fiscal 2006 from fiscal 2005. Debt service and capital projects disbursements increased approximately \$215,000 and \$433,000, respectively.
- The City's total cash basis net assets increased 6.3%, or approximately \$130,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$322,000 and the assets of the business type activities decreased by approximately \$192,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and refuse pickup and transportation to the county owned landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and sanitation funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, from \$.971 million to \$1.293 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

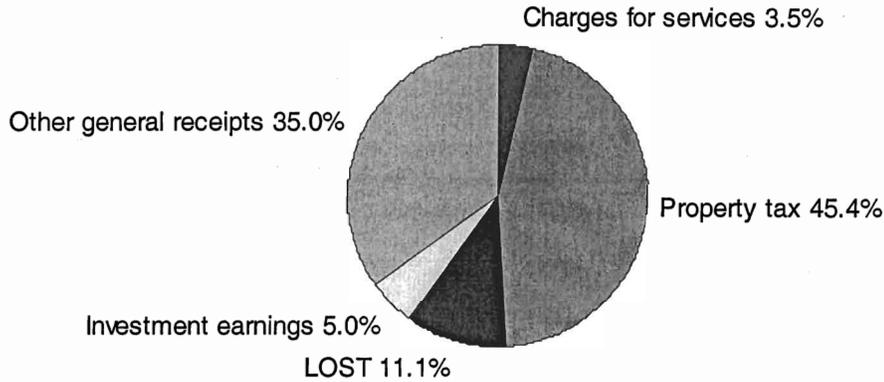
GOVERNMENTAL ACTIVITIES

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for services	\$ 47	54
General receipts:		
Property tax	604	672
Local option sales tax	147	177
Unrestricted investment earnings	66	30
Bond proceeds	1,270	0
Other general receipts	465	310
Transfers in	0	171
Total receipts	2,599	1,414
Disbursements and transfers:		
Public Safety	277	317
Public Works	235	257
Culture & Recreation	257	243
Community & Economic Development	0	4
General Government	160	169
Debt Service	634	419
Capital Projects	714	281
Total disbursements and transfers	2,277	1,690
Increase in cash basis net assets	322	(276)
Cash basis net assets beginning of year	971	1,247
Cash basis net assets end of year	\$ 1,293	971

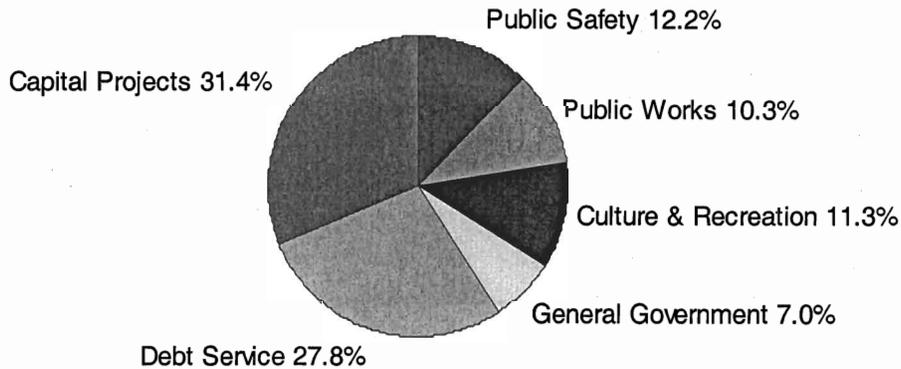
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Receipts by Source

Excluding bonds issued



Disbursements by Function



The City's total receipts for governmental activities increased by 83.8%, or \$1.185 million. This was caused by the sale of bonds in the amount of \$1.270 million. The total cost of all programs and services increased by approximately \$.587 million, or 35%. The significant increase in disbursements was the capital project, streetscape, and the refunding of bonds.

The City decreased property tax rates for 2006 by an average of less than one percent. This rate has caused the City's property tax receipts to decline by approximately \$68,000 in 2006. Request of tax increment financing (TIF) receipts being lower caused most of the decrease.

The cost of all governmental activities this year was \$2.277 million compared to \$1.690 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$2.011 million because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest.

BUSINESS TYPE ACTIVITIES

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and Transfers:		
Program receipts:		
Charges for services		
Water	\$ 132	135
Sewer	367	374
Sanitation	174	151
Capital grants, contributions and restricted interest	2	249
General receipts:		
Unrestricted interest on investments	18	10
Bond proceeds	0	1,619
Other general receipts	106	24
<hr/>		
Total receipts and transfers	799	2,562
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Disbursements and Transfers:		
Water	140	194
Sewer	301	138
Sanitation	163	151
Debt Service	209	0
Capital Projects	177	1,694
Transfers Out	0	171
<hr/>		
Total disbursements	990	2,348
<hr/>		
Increase (decrease) in cash balance	(191)	214
<hr/>		
Cash basis net assets beginning of year	1,108	894
<hr/>		
Cash basis net assets end of year	\$ 917	1,108

Total business type activities receipts for the fiscal year were \$.799 million compared to \$2.562 million last year. This significant decrease was due primarily to the receipt of \$1.619 million in sewer revenue bond proceeds in the prior year. The cash balance decreased by approximately \$191,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 58% to a total of \$.990 million due to the construction of the waste water treatment plant in the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sumner completed the year, its governmental funds reported a combined fund balance of \$1,292,859, an increase of more than \$321,600 above last year's total of \$971,221. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$28,500 from the prior year to \$328,900.
- The Road Use Tax Fund cash balance increased by \$7,100 to \$266,700 during the fiscal year. The City intends to use this money to upgrade the condition of all the City's roads.
- At the end of the fiscal year, the cash balance of the Urban Renewal Tax Increment Fund was \$129,700, an increase of \$17,300 from the previous year.
- The Special Revenue Fund (Local Option Sales Tax) cash balance increased by \$45,900 to \$201,900 during the fiscal year.
- The Capital Projects Fund (Streetscape) cash balance increased by \$199,800 to \$200,200 during the fiscal year. This increase was a net result of the construction of streetscape and the sale of bonds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$2,300 to \$229,300.
- The Sewer Fund cash balance decreased by \$225,800 to \$395,000, due primarily to the construction of the waste water treatment plant.
- The Sanitation Fund cash balance increased by \$36,100 to \$292,700.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. This amendment was approved on May 15, 2006 and required as part of the construction of the waste water treatment plant and other changes during the fiscal year.

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City of Sumner

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Restricted Interest	Capital Grants Restricted Interest
Governmental activities:				
Public safety	\$ 277,381	0	17,600	0
Public works	234,852	0	181,468	0
Culture and recreation	257,385	46,968	19,309	0
Community and economic development	0	0	0	0
General government	159,763	0	0	0
Debt service	633,691	0	0	0
Capital projects	713,713	0	0	0
Total governmental activities	2,276,785	46,968	218,377	0
Business type activities:				
Water	140,462	131,794	0	0
Sewer	687,395	367,111	0	1,518
Sanitation	163,099	174,275	0	0
Total business type activities	990,956	673,180	0	1,518
Totals	\$ 3,267,741	720,148	218,377	1,518
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted				
Debt service				
Unrestricted				
Total Cash Basis Net Assets				

Exhibit A

Governmental Activities	Business Type Activities	Total
(259,781)	0	(259,781)
(53,384)	0	(53,384)
(191,108)	0	(191,108)
0	0	0
(159,763)	0	(159,763)
(633,691)	0	(633,691)
(713,713)	0	(713,713)
(2,011,440)	0	(2,011,440)
0	(8,668)	(8,668)
0	(318,766)	(318,766)
0	11,176	11,176
0	(316,258)	(316,258)
(2,011,440)	(316,258)	(2,327,698)
571,683	0	571,683
32,267	0	32,267
146,654	0	146,654
65,698	18,379	84,077
1,270,000	0	1,270,000
246,776	105,997	352,773
0	0	0
2,333,078	124,376	2,457,454
321,638	(191,882)	129,756
971,221	1,108,925	2,080,146
\$ 1,292,859	917,043	2,209,902
\$ 971,221	216,012	216,012
971,221	892,913	1,864,134
\$ 971,221	1,108,925	2,080,146

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 426,675	0	0
Tax Increment Financing (TIF) receipts	0	0	32,267
Other city tax	0	0	0
Licenses and permits	6,920	0	0
Use of money and property	44,444	0	0
Intergovernmental	42,052	176,325	0
Charges for services	46,968	0	0
Miscellaneous	67,815	16,325	0
Total receipts	634,874	192,650	32,267
Disbursements:			
Operating:			
Public Safety	200,140	0	0
Public Works	24,454	185,517	0
Culture & Recreation	236,158	0	0
General Government	145,607	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total disbursements	606,359	185,517	0
Excess of receipts over disbursements	28,515	7,133	32,267
Other financing sources (uses):			
Bond proceeds	0	0	0
Operating transfers in	0	0	0
Operating transfers out	0	0	(14,978)
Total other financing sources (uses)	0	0	(14,978)
Net change in cash balances	28,515	7,133	17,289
Cash balances beginning of year	300,345	259,584	112,446
Cash balances end of year	\$ 328,860	266,717	129,735
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 328,860	0	0
Special revenue funds	0	266,717	129,735
Debt service	0	0	0
Capital projects funds	0	0	0
Permanent fund	0	0	0
Total cash basis fund balances	\$ 328,860	266,717	129,735

See notes to financial statements.

Exhibit B

<u>Special Revenue</u>					
Local Option Sales Tax	Debt Service	Capital Projects Streetscape	Other Nonmajor Governmental Funds		Total
0	0	0	145,008		571,683
0	0	0	0		32,267
146,654	0	0	0		146,654
0	0	0	0		6,920
8,201	0	10,657	2,396		65,698
0	0	0	0		218,377
0	0	0	0		46,968
0	0	142,673	13,043		239,856
154,855	0	153,330	160,447		1,328,423
0	0	0	77,241		277,381
0	0	0	24,881		234,852
0	0	0	21,227		257,385
0	0	0	14,156		159,763
0	633,691	0	0		633,691
0	0	713,713	0		713,713
0	633,691	713,713	137,505		2,276,785
154,855	(633,691)	(560,383)	22,942		(948,362)
0	499,704	770,296	0		1,270,000
0	134,087	64,629	0		198,716
(108,985)	0	(74,753)	0		(198,716)
(108,985)	633,791	760,172	0		1,270,000
45,870	100	199,789	22,942		321,638
156,018	0	401	142,427		971,221
201,888	100	200,190	165,369		1,292,859
0	0	0	0		328,860
201,888	0	0	4,627		602,967
0	100	0	0		100
0	0	200,190	100,655		300,845
0	0	0	60,087		60,087
201,888	100	200,190	165,369		1,292,859

City of Sumner

Exhibit C

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

As of and for the year ended June 30, 2006

	Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating receipts:				
Use of money and property	\$ 3,279	10,611	4,489	18,379
Charges for service	131,794	367,111	174,275	673,180
Miscellaneous	8,963	611	14,634	24,208
Total operating receipts:	144,036	378,333	193,398	715,767
Operating disbursements:				
Business type activities	140,462	300,981	163,099	604,542
Excess (deficiency) of operating receipts over (under) operating disbursements	3,574	77,352	30,299	111,225
Non-operating receipts (disbursements)				
Intergovernmental	0	1,518	0	1,518
Miscellaneous	0	81,789	0	81,789
Revenue bond proceeds	0	0	0	0
Debt service	0	(208,729)	0	(208,729)
Construction of WWTP	0	(177,685)	0	(177,685)
Net non-operating receipts (disbursements)	0	(303,107)	0	(303,107)
Excess (deficiency) of receipts over (under) disbursements	3,574	(225,755)	30,299	(191,882)
Operating transfers in (out), net	(5,832)	0	5,832	0
Net change in cash balances	(2,258)	(225,755)	36,131	(191,882)
Cash balances beginning of year	231,535	620,794	256,596	1,108,925
Cash balances end of year	\$ 229,277	395,039	292,727	917,043
Cash Basis Fund Balances				
Reserve for debt service	\$ 0	99,941	0	99,941
Unreserved	229,277	295,098	292,727	817,102
Total cash basis fund balances	\$ 229,277	395,039	292,727	917,043

See notes to financial statements.

CITY OF SUMNER

Notes to the Financial Statements

CITY OF SUMNER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The City of Sumner is a political subdivision of the State of Iowa located in Bremer and Fayette Counties. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements and general administrative service. The City also provides water, sewer and sanitation for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Sumner has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has 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.

Jointly Governed Organizations

The City 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 OF SUMNER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

B. **Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. 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:

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

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

CITY OF SUMNER
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 disbursement, the fixed charges and the capital improvement costs that are not paid for 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 Local Option Sales Tax Fund is used to account of the collection of the one percent sales tax and its uses.

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

The Capital Projects - Fire Station Fund is used to account for the construction of a new fire station.

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.

The Sanitation Fund accounts for the operation and maintenance of the City's sanitation system.

CITY OF SUMNER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

C. Measurement Focus and Basis of Accounting

The City of Sumner 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, 2006, disbursements exceeded the amounts budgeted in the functions of public works, debt service, capital projects, and business type activities.

(2) Deposits and Investments

The City's deposits and investments at June 30, 2006, 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

CITY OF SUMNER
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	155,000	54,008	122,000	93,145	277,000	147,153
2008	160,000	48,883	126,000	89,180	286,000	138,063
2009	160,000	43,303	130,000	85,085	290,000	128,388
2010	165,000	37,648	134,000	80,860	299,000	118,508
2011	175,000	31,656	138,000	76,505	313,000	108,161
2012	180,000	25,128	142,000	72,020	322,000	97,148
2013	185,000	18,233	146,000	67,405	331,000	85,638
2014	85,000	10,925	151,000	62,660	236,000	73,585
2015	85,000	7,440	155,000	57,752	240,000	65,192
2016	90,000	3,870	160,000	52,715	250,000	56,585
2017 and after	0	0	1,462,000	221,197	1,462,000	221,197
TOTALS	1,440,000	281,094	2,866,000	958,524	4,306,000	1,239,618

Sewer Revenue Bond - Of the \$3,100,000 available credit, only \$2,857,233 has been borrowed as of June 30, 2006. It is expected that the rest of this loan will be borrowed during the next fiscal year with any unused funds being used to reduce to bond amount.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

CITY OF SUMNER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

(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 5.93% and 8.90%, respectively. These rates tend to change from year to year. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$29,061, \$28,581, and \$28,208 respectively, equal to the required contributions for each year.

CITY OF SUMNER
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	13,882
Sick Leave *	57,354
Total	71,236

* Sick leave is not payable upon termination, retirement or death.

This liability has been computed based on rates of pay as of June 30, 2006.

(6) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2006, disbursements in the Public Works, Debt Service, Capital Projects, and Business Type Activities functions exceeded the amount budgeted. For Debt Service, these expenditures were exceeded before the budget was amended.

(7) Litigation

The City had no pending litigation, claims, or assessments at June 30, 2006.

CITY OF SUMNER
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(8) Risk Management

The City of Sumner is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Related Party Transactions

The City had business transactions between the City and the City's officials and employees totaling \$8,779 during the year ended June 30, 2006.

CITY OF SUMNER

CITY OF SUMNER

Required Supplementary Information

City of Sumner
 Budgetary Comparison Schedule
 Of Receipts, Disbursements, and Change in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 571,683	0
Tax Increment Financing (TIF) receipts	32,267	0
Other city tax	146,654	0
Licenses and permits	6,920	0
Use of money and property	65,698	18,379
Intergovernmental	218,377	1,518
Charges for services	46,968	673,180
Miscellaneous	239,856	105,997
Total receipts	1,328,423	799,074
Disbursements:		
Public Safety	277,381	0
Public Works	234,852	0
Culture & Recreation	257,385	0
General Government	159,763	0
Debt Service	633,691	0
Capital Projects	713,713	0
Business type activities	0	990,956
Total disbursements	2,276,785	990,956
Excess of receipts over disbursements	(948,362)	(191,882)
Other financing sources, net	1,270,000	0
Excess of receipts and other financing sources over disbursements and other financing uses	321,638	(191,882)
Balances beginning of year	971,221	1,108,925
Balances end of year	\$ 1,292,859	917,043

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
571,683	570,687	583,558	(11,875)	-2%
32,267	0	33,000	(733)	-2%
146,654	163,583	163,583	(16,929)	-10%
6,920	6,310	8,190	(1,270)	-16%
84,077	10,000	11,500	72,577	631%
219,895	222,225	222,225	(2,330)	-1%
720,148	780,501	780,501	(60,353)	-8%
345,853	60,000	62,173	283,680	456%
<u>2,127,497</u>	<u>1,813,306</u>	<u>1,864,730</u>	<u>262,767</u>	<u>14%</u>
277,381	278,255	287,255	9,874	3%
234,852	222,256	224,256	(10,596)	-5%
257,385	273,042	277,042	19,657	7%
159,763	155,524	173,524	13,761	8%
633,691	111,563	1,016,515	382,824	38%
713,713	0	0	(713,713)	-N/A%
990,956	780,501	780,501	(210,455)	-27%
<u>3,267,741</u>	<u>1,821,141</u>	<u>2,759,093</u>	<u>(508,648)</u>	<u>-18%</u>
(1,140,244)	(7,835)	(894,363)		
<u>1,270,000</u>	<u>144,563</u>	<u>1,249,978</u>		
129,756	136,728	355,615		
<u>2,080,146</u>	<u>2,800,050</u>	<u>2,800,050</u>		
<u>2,209,902</u>	<u>2,936,778</u>	<u>3,155,665</u>		

CITY OF SUMNER

Other Supplementary Information

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City of Sumner

Schedule 1

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

As of and for the year ended June 30, 2006

	Special Revenue	Capital Projects	Permanent Cemetery	Total
	Employees' Benefits	Project Reach	Perpetual Care	
Receipts:				
Property tax	\$ 145,008	0	0	145,008
Use of money and property	0	983	1,413	2,396
Miscellaneous	0	10,000	3,043	13,043
Total receipts	145,008	10,983	4,456	160,447
Disbursements:				
Public Safety	77,241	0	0	77,241
Public Works	24,881	0	0	24,881
Culture & Recreation	21,184	0	43	21,227
General Government	14,156	0	0	14,156
Capital Projects	0	0	0	0
Total disbursements	137,462	0	43	137,505
Excess (deficiency) of receipts over (under) disbursements	7,546	10,983	4,413	22,942
Operating transfers in (out), net	0	0	0	0
Net change in cash balances	7,546	10,983	4,413	22,942
Cash balances beginning of year	(2,919)	89,672	55,674	142,427
Cash balances end of year	\$ 4,627	100,655	60,087	165,369
Cash Basis Fund Balances				
Unreserved:				
Special Revenue	\$ 4,627	0	0	4,627
Capital project fund	0	100,655	0	100,655
Permanent fund	0	0	60,087	60,087
Total cash basis fund balances	\$ 4,627	100,655	60,087	165,369

See accompanying independent auditor's report.

Schedule 2

City of Sumner
Statement of Indebtedness
Year ended June 30, 2006

	General Obligation Bond Project Reach	Sewer Revenue Bonds	General Obligation Bond Fire Station	General Obligation Bond Streetscape
Date of Issue	July 08, 1998	October 27, 2003	June 17, 2004	August 1, 2005
Interest Rates	4.050 to 4.800%	3.25%	1.5 to 3.95%	3.5 to 4.3%
Amount Originally Issued	\$ 800,000	\$ 3,100,000	\$ 285,000	\$ 1,270,000
Balance Beginning of Year	495,000	2,802,181	255,000	0
Issued During Year	0	0	0	1,270,000
Redeemed During Year	495,000	119,000	30,000	55,000
Balance End of Year	0	2,683,181	225,000	1,215,000
Interest Paid	4,704	89,729	8,278	40,710
Interest Due and Unpaid	0	7,762	639	3,862

A - Not all funds borrowed as of June 30, 2006 - expected to borrow balance next year
(see Schedule 3 for more details)

See notes to financial statements.

City of Sumner

Schedule 3

Bond and Note Maturities
June 30, 2006

Year Ending June 30,	Fire Station \$285,000 Issued June 17, 2004		Streetscape & Refunding \$1,270,000 Issued August 1, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	2.500%	30,000	3.500%	125,000	155,000
2008	3.000%	30,000	3.600%	130,000	160,000
2009	3.250%	30,000	3.600%	130,000	160,000
2010	3.550%	30,000	3.650%	135,000	165,000
2011	3.650%	35,000	3.750%	140,000	175,000
2012	3.750%	35,000	3.850%	145,000	180,000
2013	3.950%	35,000	3.950%	150,000	185,000
2014			4.100%	85,000	85,000
2015			4.200%	85,000	85,000
2016			4.300%	90,000	90,000
Total		\$225,000		\$1,215,000	\$1,440,000

Year Ending June 30,	Sewer Revenue Bonds \$3,100,000 Issued October 27, 2003	
	Interest Rates	Amount
2007	3.250%	122,000
2008	3.250%	126,000
2009	3.250%	130,000
2010	3.250%	134,000
2011	3.250%	138,000
2012	3.250%	142,000
2013	3.250%	146,000
2014	3.250%	151,000
2015	3.250%	155,000
2016	3.250%	160,000
2017	3.250%	164,000
2018	3.250%	169,000
2019	3.250%	175,000
2020	3.250%	180,000
2021	3.250%	185,000
2022	3.250%	191,000
2023	3.250%	196,000
2024	3.250%	202,000
Total		\$2,866,000 B

A - Interest rate of 3% plus a service fee of .25% for a total of 3.25%

B - \$2,857,233 borrowed as of June 30, 2006 - expected to borrow balance next year

See accompanying independent auditor's report.

Schedule 4

City of Sumner

Schedule of Receipts by Source and Disbursements by Function
All Governmental Funds

For the Last Four Years ended June 30, 2006

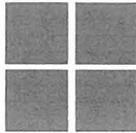
	2006	2005	2004	2003
Receipts:				
Property tax	\$ 571,683	524,802	517,750	513,493
Tax Increment Financing (TIF) receipts	32,267	146,895	178,169	165,855
Other city tax	146,654	176,797	132,625	146,711
Licenses and permits	6,920	5,379	7,247	3,270
Use of money and property	65,698	30,252	10,353	25,849
Intergovernmental	218,377	215,032	321,617	287,656
Charges for services	46,968	54,101	51,476	59,619
Bond proceeds	1,270,000	0	285,000	0
Miscellaneous	239,856	90,031	120,546	169,145
Total receipts	\$ 2,598,423	1,243,289	1,624,783	1,371,598
Disbursements:				
Operating:				
Public Safety	\$ 277,381	316,433	321,092	274,974
Public Works	234,852	256,823	166,956	215,638
Culture & Recreation	257,385	242,507	313,944	227,887
Community & Economic Development	0	4,401	80,000	0
General Government	159,763	169,339	169,721	183,752
Debt Service	633,691	419,263	183,251	190,226
Capital Projects	713,713	281,271	64,130	68,171
Total disbursements	\$ 2,276,785	1,690,037	1,299,094	1,160,648

See accompanying independent auditor's report.

CITY OF SUMNER

CITY OF SUMNER

**Independent Auditor's Report
on Compliance
and 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**



SHAFFER COMPANY, P.C.

Certified Public Accountant

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Independent Auditor's Report on Compliance
and 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:**

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Sumner, Iowa, as of and for the year ended June 30, 2006, which collectively comprise of the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 21, 2007. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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 my audit, I considered the City of Sumner's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Sumner's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the 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, I believe item II-A-06 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-06.

Compliance

As part of obtaining reasonable assurance about whether the City of Sumner's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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 the statutes. Prior year statutory comments have been resolved except for item II-A-06.

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 Sumner and other parties to whom the City of Sumner may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 21, 2007

CITY OF SUMNER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which 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.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose an non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all sometimes done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, that City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - 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.

CITY OF SUMNER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Statutory Reporting:

III-A-06 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, 2006.

III-B-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the Public Works, Debt Service, Capital Projects, and Business Type Activities functions. Chapter 384.18 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 - While the budget was amended once during the year, it should have been amended 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.

III-C-06 Questionable Disbursements - No disbursements were noted for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF SUMNER
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Statutory Reporting, Continued:

III-E-06 Business Transactions - Business transactions between the City and City officials or employees are summarized as follows:

Name, title, and business connection	Transaction description	Amount
Roger Burgart, Employee d/b/a Burgart Lawn Care	Spraying	\$2,500
David Meighan, Council Member d/b/a Meighan Drainage	Backhoe work	\$6,279

The transactions above do not appear to represent conflicts of interest.

III-F-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-06 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should publish the annual gross salaries.

Response - We will publish them in the future.

Conclusion - Response accepted.

CITY OF SUMNER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Statutory Reporting, Continued:

- III-H-06 Deposits and Investments - I 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.
- III-I-06 Revenue Bonds and Notes - The City has complied with revenue bond and note resolutions.
- III-J-06 Payment of General Obligation Bonds - The City properly paid for its general obligation bonds out of the Debt Service Fund.

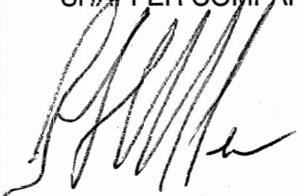
CITY OF SUMNER

Audit Staff

This audit was performed by:

Roger L. Shaffer, C.P.A., Owner & Manager of the Firm

SHAFFER COMPANY, P.C.

A handwritten signature in black ink, appearing to read 'R. Shaffer', is written over the printed name and title.

ROGER L. SHAFFER
Certified Public Accountant