

CITY OF GARNER

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

JUNE 30, 2006

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CITY OF GARNER

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
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
(After January 2006)		
Ken Mick	Mayor	Jan 2010
Karl Bauer	Mayor Pro tem	Jan 2008
Deb Schmidt	Council Member	Jan 2008
Dick Voortmann	Council Member	Jan 2010
Gerald Pedersen	Council Member	Jan 2010
Denny Drabek	Council Member	Jan 2010
Daisy Huffman	City Clerk	Indefinite
Brent Hinson	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, 2006, 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 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, 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, we have also issued our report dated November 20, 2006 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 considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 29 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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, 2005 (none of which are presented herein) and expressed unqualified opinions 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 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.

November 20, 2006

Renner & Birchem, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 16.8% or approximately \$540,000 from fiscal 2005 to fiscal 2006. Hejlik's Second Subdivision bond proceeds of \$500,000 account for most of this increase.
- Disbursements increased 13.6% or approximately \$410,000. Payments on Hejlik's Second Subdivision project were the primary reason for this increase.
- The City's total cash basis net assets increased approximately \$494,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$343,000 and the assets of the business type activities increased \$151,000.

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 non-major governmental funds.

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 other general receipts finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer and storm sewer systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: A) the General Fund, B) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, C) the Debt Service Fund, D) the Capital Projects Fund and E) 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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and storm sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

Reconciliations 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 shows a modest increase of 17% from \$1.9 million to \$2.2 million. The analysis to follow focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities increased approximately \$540,000 or 16.8%. The significant increase in receipts was primarily the result of proceeds received from the issuance of urban renewal tax increment financing revenue bonds.

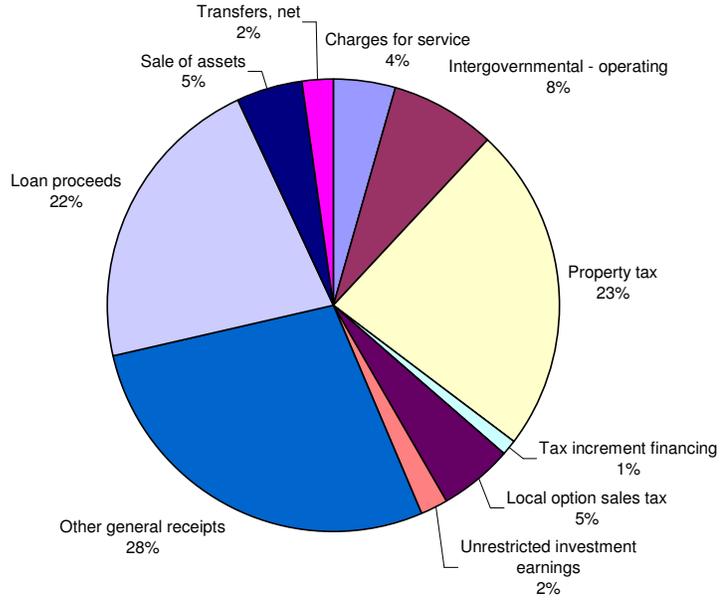
The City decreased property tax rates for 2006 by an average of 3.5 percent. Even with this decrease, property tax receipts for the year increased \$60,000. This is due largely to the release of over \$7 million of TIF increment to the general fund. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$98,000 next year.

The cost of all governmental activities this year was \$3.4 million compared to \$3 million last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$3 million because some of the cost was paid by those directly benefited from the programs (\$169,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$286,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased slightly in 2006 from approximately \$453,000 to \$455,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2.9 million in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements. \$822,000 of bond proceeds and nearly \$723,000 in Homeward loans flowing through the City account for 53 percent of these receipts.

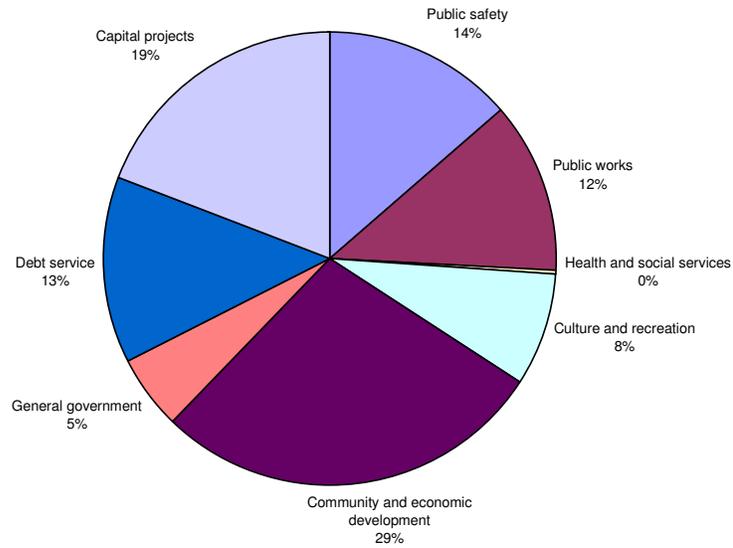
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 169,488	172,796
Intergovernmental - operating	285,702	281,073
General receipts:		
Property tax	870,989	810,442
Tax increment financing	45,191	260,283
Local option sales tax	203,647	176,170
Grants and contributions not restricted to specific purpose	0	14,045
Unrestricted investment earnings	67,715	29,667
Other general receipts	1,047,895	920,496
Loan proceeds	822,000	200,000
Sale of assets	179,000	172,250
Transfers, net	79,588	191,705
Total receipts and transfers	3,771,215	3,228,927
Disbursements:		
Public safety	467,124	435,756
Public works	419,742	620,565
Health and social services	4,500	10,350
Culture and recreation	279,407	270,778
Community and economic development	967,255	662,327
General government	172,330	165,523
Debt service	462,407	815,124
Capital projects	655,797	37,943
Total disbursements	3,428,562	3,018,366
Increase in cash basis net assets	342,653	210,561
Cash basis net assets beginning of year	1,938,240	1,727,679
Cash basis net assets end of year	\$ 2,280,893	1,938,240

Receipts by Source



Disbursements by Function



Total business type activities receipts for the fiscal year were \$581,293 compared to \$526,314 last year. Total disbursements and transfers for the fiscal year decreased by 24% to a total of \$430,265. With fewer transfers out than the prior year, the cash balance increased by more than \$151,000

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 244,203	227,216
Sewer	214,275	202,565
Storm sewer	57,947	56,369
General receipts:		
Unrestricted investment earnings	33,554	14,408
Other general receipts	31,314	25,756
Total receipts and transfers	<u>581,293</u>	<u>526,314</u>
Disbursements and transfers:		
Water	188,294	170,956
Sewer	154,612	192,556
Storm sewer	7,771	7,838
Transfers	79,588	191,705
Total disbursements and transfers	<u>430,265</u>	<u>563,055</u>
Decrease in cash basis net assets	151,028	-36,741
Cash basis net assets beginning of year	<u>868,212</u>	<u>904,953</u>
Cash basis net assets end of year	<u>\$ 1,019,240</u>	<u>868,212</u>

INDIVIDUAL MAJOR AND NON-MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Garner completed the year, its governmental funds reported a combined fund balance of \$2,280,893, an increase of more than \$342,000 above last year's total of 1,938,240. The following are the reasons for the changes in fund balances of the major and non-major funds from the prior year.

- The General Fund cash balance decreased \$172,392 from the prior year to \$518,910. This decrease was due to the transfer of \$100,000 to Debt Service and the implementation of a multi-year City Wide Sidewalk Replacement Program costing the city approximately \$37,000 in 2006. This program included a one-time City park sidewalk project and funds for the program are expected to be budgeted in the normal budget process in future years.

- The Road Use Tax Fund cash balance increased by \$17,752 to \$141,961 during the fiscal year.
- The combined Urban Renewal Tax Increment Funds cash balances totaled \$4,630, a decrease of \$42,043 from the previous year. This decrease was due to the use of available cash reserves.
- The Debt Service Fund cash balance increased by \$312,447 to \$347,350 during the fiscal year. This increase was due to transfers from the General Fund and Local Option of \$100,000 and \$205,000 respectively.
- Non-major Governmental Funds increased by \$266,184 to \$1,243,225. This increase is due to receipt of bond proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$78,078 to \$663,925. These are normal reserves created to fund future projects.
- The Sewer Fund cash balance increased by \$57,819 to \$214,549. These are also normal reserves created to fund future projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 23, 2006 and resulted in an increase to several functions totaling \$1,866,500. The most notable being to community and economic development in the amount of \$1,051,000, primarily for Homeward loan disbursements flowing through the City and capital projects expenditures totaling \$685,000. Bond proceeds covered the increased capital project expenditures and the Homeward loan receipts which flowed through the City and equaled the disbursements.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$1.7 million in bonds and other long-term debt, compared to approximately \$1.3 million last year, as shown below.

Outstanding Debt at Year-End		
	Year ended June 30,	
	2006	2005
General obligation notes	\$ 627,256	953,961
Urban renewal tax increment financing revenue bonds	837,123	377,123
Revenue notes	257,143	0
Total	\$ 1,721,522	1,331,084

Debt increased as a result of issuing a revenue note for a sewer construction project. In addition, the City issued urban renewal tax increment financing revenue

bonds for the purpose of defraying a portion of the costs in developing a housing project for the City.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,504,400 is significantly below its constitutional debt limit of \$5,465,877.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Garner's elected and appointed officials considered many factors when setting the fiscal year 2007 budget and tax rates. One of those factors is the strong housing market. During fiscal year 2006, fourteen new homes were built. Most of these were constructed in Hejlik's First Subdivision, filling up the thirty-eight lot subdivision in only two years.

Hejlik's Second Subdivision was underway by the end of fiscal year 2006. Although bond proceeds of \$500,000 were received in 2006, final construction costs will actually be paid in 2007. Due to this factor, the City's budgeted cash balance is expected to decrease by approximately \$335,000 by the close of 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brent Hinson, City Administrator, 135 West 5th Street, Garner, Iowa.

BASIC FINANCIAL STATEMENTS

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

	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	\$ 467,124		13,079	(454,045)		(454,045)
Public works	419,742	132,968	244,646	(42,128)		(42,128)
Health and social services	4,500			(4,500)		(4,500)
Culture and recreation	279,407	36,220	27,977	(215,210)		(215,210)
Community and economic development	967,255			(967,255)		(967,255)
General government	172,330	300		(172,030)		(172,030)
Debt service	462,407			(462,407)		(462,407)
Capital projects	655,797			(655,797)		(655,797)
Total governmental activities	3,428,562	169,488	285,702	(2,973,372)		(2,973,372)
Business type activities:						
Water	188,294	244,203			55,909	55,909
Sewer	154,612	214,275			59,663	59,663
Storm sewer	7,771	57,947			50,176	50,176
Total business type activities	350,677	516,425			165,748	165,748
Total	\$ 3,779,239	685,913	285,702	(2,973,372)	165,748	(2,807,624)
General Receipts:						
Property tax levied for:						
General purposes				516,318		516,318
Tax increment financing				45,191		45,191
Employee benefits and insurance				140,100		140,100
Debt service				214,571		214,571
Local option sales tax				203,647		203,647
Unrestricted interest on investments				67,715	33,554	101,269
Miscellaneous				1,047,895	31,314	1,079,209
Loan proceeds				822,000		822,000
Sale of assets				179,000		179,000
Transfers				79,588	(79,588)	
Total general receipts and transfers				3,316,025	(14,720)	3,301,305
Change in cash basis net assets				342,653	151,028	493,681
Cash basis net assets beginning of year				1,938,240	868,212	2,806,452
Cash basis net assets end of year				\$ 2,280,893	1,019,240	3,300,133
Cash Basis Net Assets						
Restricted:						
Streets				141,961		141,961
Urban renewal purposes				4,630		4,630
Debt service				347,350		347,350
Other purposes				1,243,225		1,243,225
Unrestricted				543,727	1,019,240	1,562,967
Total cash basis net assets				\$ 2,280,893	1,019,240	3,300,133

See notes to financial statements.

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

As of and for the year ended June 30, 2006

	<u>Special Revenue</u>					Total
	General	Road Use Tax	Urban Renewal Tax Increment	Debt Service	Nonmajor	
Receipts:						
Property tax	\$ 516,318			214,571	140,100	870,989
Tax increment financing collections			45,191			45,191
Other city tax					203,647	203,647
Licenses and permits	35,631					35,631
Use of money and property	51,907	2,948			28,535	83,390
Intergovernmental	41,056	244,646				285,702
Charges for services	169,488					169,488
Special assessments	358					358
Miscellaneous	752,980	2,863			240,388	996,231
Total receipts	1,567,738	250,457	45,191	214,571	612,670	2,690,627
Disbursements:						
Operating:						
Public safety	380,862				85,258	466,120
Public works	141,485	232,705			45,349	419,539
Health and social services	4,500					4,500
Culture and recreation	251,368				28,539	279,907
Community and economic development	748,501		557		218,197	967,255
General government	139,092				34,649	173,741
Debt service				462,407		462,407
Capital projects					655,797	655,797
Total disbursements	1,665,808	232,705	557	462,407	1,067,789	3,429,266
Excess (deficiency) of receipts over (under) disbursements	(98,070)	17,752	44,634	(247,836)	(455,119)	(738,639)
Other financing sources (uses):						
Operating transfers in	31,741		4,502	560,283	21,063	617,589
Operating transfers out	(106,063)		(91,179)		(340,760)	(538,002)
Loan proceeds					822,000	822,000
Sale of assets					179,000	179,000
Total other financing sources (uses)	(74,322)		(86,677)	560,283	681,303	1,080,587
Net change in cash balances	(172,392)	17,752	(42,043)	312,447	226,184	341,948
Cash balances beginning of year	691,302	124,209	46,673	34,903	1,017,041	1,914,128
Cash balances end of year	\$ 518,910	141,961	4,630	347,350	1,243,225	2,256,076
Cash Basis Fund Balances						
Reserved:						
Debt service				347,350		347,350
Unreserved:						
General fund	\$ 518,910					518,910
Special revenue funds		141,961	4,630		746,670	893,261
Capital projects fund					344,781	344,781
Permanent fund					151,774	151,774
Total cash basis fund balances	\$ 518,910	141,961	4,630	347,350	1,243,225	2,256,076

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, 2006

Total governmental funds cash balances (page 16)	\$ 2,256,076
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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.

24,817

Cash basis net assets of governmental activities (page 15)	\$ 2,280,893
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Net change in cash balances (page 16)	\$ 341,948
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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.

705

Change in cash balance of governmental activities (page 15)	\$ 342,653
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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, 2006

	Enterprise Funds				Internal Service Funds		
	Water	Sewer	Storm Sewer	Total	Employee Health	Flex Plan	Total
Operating receipts:							
Charges for services	\$ 244,203	214,275	57,947	516,425	5,250	8,749	13,999
Total operating receipts	244,203	214,275	57,947	516,425	5,250	8,749	13,999
Operating disbursements:							
Governmental activities:							
Public safety					1,992	1,117	3,109
Public works					1,143	6,124	7,267
General government					1,000	223	1,223
Business type activities	187,919	154,236	7,771	349,926	1,153	2,148	3,301
Total operating disbursements	187,919	154,236	7,771	349,926	5,288	9,612	14,900
Excess (deficiency) of operating receipts over (under) operating disbursements	56,284	60,039	50,176	166,499	(38)	(863)	(901)
Non-operating receipts (disbursements):							
Special assessments			31,314	31,314			
Interest on investments	21,794	7,368	4,392	33,554	854		854
Total non-operating receipts	21,794	7,368	35,706	64,868	854		854
Excess (deficiency) of receipts over (under) disbursements	78,078	67,407	85,882	231,367	816	(863)	(47)
Operating transfers in (out)		(9,588)	(70,000)	(79,588)			
Net change in cash balances	78,078	57,819	15,882	151,779	816	(863)	(47)
Cash balances beginning of year	585,847	156,730	118,159	860,736	31,339	249	31,588
Cash balances end of year	\$ 663,925	214,549	134,041	1,012,515	32,155	(614)	31,541
Cash Basis Fund Balances							
Unreserved	\$ 663,925	214,549	134,041	1,012,515	32,155	(614)	31,541
Total cash basis fund balances	\$ 663,925	214,549	134,041	1,012,515	32,155	(614)	31,541

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, 2006

Total enterprise funds cash balances (page 18)	\$ 1,012,515
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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.

6,725

Cash basis net assets of business type activities (page 15)	\$ 1,019,240
--	---------------------

Net change in cash balances (page 18)	\$ 151,779
--	-------------------

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

(751)

Change in cash balance of business type activities (page 15)	\$ 151,028
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See notes to financial statements.

CITY OF GARNER

Notes to Financial Statements

June 30, 2006

(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 and recreation, community and economic development and general government services. The City of Garner also provides water and sewer utilities for its citizens.

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 and Hancock County Economic Development Corporation.

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, 2006

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, 2006

The Storm Sewer Fund accounts for the operation and maintenance of the City's storm sewer system.

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.

(2) Cash and Investments

The City's deposits in banks 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; 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

CITY OF GARNER

Notes to Financial Statements (continued)

June 30, 2006

(2) Cash and Investments (con't)

The Henschen Library Trust investments at June 30, 2006 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>266,509</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 is 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 notes, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General		Urban Renewal Tax Increment Financing (TIF) Revenue Bond		Revenue Notes		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 268,873	24,433	143,315	22,868	42,857	9,900	455,045	57,201
2008	280,723	13,614	145,799	19,242	42,857	8,273	469,379	41,129
2009	77,660	2,038	148,479	15,408	42,857	6,600	268,996	24,046
2010			111,218	12,096	42,857	4,950	154,075	17,046
2011			114,067	9,248	42,857	3,300	156,924	12,548
2012			94,135	6,302	42,858	1,654	136,993	7,956
2013			<u>80,110</u>	<u>3,204</u>			<u>80,110</u>	<u>3,204</u>
Total	\$ <u>627,256</u>	<u>40,085</u>	<u>837,123</u>	<u>88,368</u>	<u>257,143</u>	<u>34,677</u>	<u>1,721,522</u>	<u>163,130</u>

In addition Homeward, Inc. loan balance outstanding at June 30, 2006 is \$300,000. 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 2004-1. 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, 2006

(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.

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$37,591, \$35,674, and \$32,393 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, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2006</u>
Vacation	\$ 16,810
Comp	<u>2,355</u>
	\$ <u>19,165</u>

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

CITY OF GARNER

Notes to Financial Statements

June 30, 2006

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option	\$ <u>31,741</u>
Special Revenue: TIF-Touchstone	TIF - Kadrluk	<u>4,502</u>
Capital Project	General Special Revenue: Local Option	6,063 <u>15,000</u> <u>21,063</u>
Debt Service	General Special Revenue: Tax Increment Revolving Loan-Housing Local Option Enterprise: Storm Sewer Sewer	<u>100,000</u> 86,676 30,592 <u>220,000</u> <u>337,268</u> 70,000 <u>53,015</u> <u>123,015</u>
Enterprise: Sewer	Special Revenue: Capital Projects	<u>43,427</u>
Total		\$ <u>661,016</u>

(7) Related Party Transactions

The City had no business transactions between the City and City officials, during the year ended June 30, 2006.

(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 531 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, 2006

(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, 2006 were \$48,911.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000 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, 2006, 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, 2006

(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) 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 payments on the note are satisfied.

(10) Subsequent Events

On July 12, 2006, the City issued a General Obligation Aquatic Center Bond in the amount of \$2,200,000. Interest is payable at the rate of 4.150-4.30% per annum, on December 1, 2006, and on each June 1 and December 1 thereafter until maturity. Principal on the Note is payable in annual installments due June 1 in each of the years 2008 to 2024, inclusive.

The City entered into construction contracts totaling \$2,826,240 for the aquatic center. The City also entered into a construction contract for \$71,545 for a street project to be paid from road use tax funds and a construction contract for \$596,412 for Hejlik subdivision sewer and water services to be paid in part by \$500,000 June 1, 2006 TIF.

(11) Homeward, Inc. Loan

In October 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, 2006 is \$300,000.

(12) Deficit Fund Balance

The Flex Plan Fund had a deficit balance of \$614 at June 30, 2006. The deficit was a result of costs incurred prior to availability of funds.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property Tax	\$ 870,989			870,989	842,987	842,987	28,002
Tax increment financing collections	45,191			45,191	43,797	43,797	1,394
Other city tax	203,647			203,647	184,738	224,738	(21,091)
Licenses and permits	35,631			35,631	25,010	25,010	10,621
Use of money and property	83,390	34,408	6,834	110,964	58,240	98,240	12,724
Intergovernmental	285,702			285,702	283,359	283,359	2,343
Charges for services	169,488	530,424	13,999	685,913	650,350	650,350	35,563
Special assessments	358	31,314		31,672	6,250	26,250	5,422
Miscellaneous	996,231			996,231	195,550	1,537,813	(541,582)
Total receipts	<u>2,690,627</u>	<u>596,146</u>	<u>20,833</u>	<u>3,265,940</u>	<u>2,290,281</u>	<u>3,732,544</u>	<u>(466,604)</u>
Disbursements:							
Public safety	466,120	3,109	3,109	466,120	414,063	482,563	16,443
Public works	419,539	7,267	7,267	419,539	593,687	593,687	174,148
Health and social services	4,500			4,500	5,000	5,000	500
Culture and recreation	279,907		6,129	273,778	270,282	282,282	8,504
Community and economic development	967,255			967,255	88,100	1,139,100	171,845
General government	173,741	1,223	1,223	173,741	226,200	226,200	52,459
Debt service	462,407			462,407	418,228	468,228	5,821
Capital projects	655,797			655,797	10,000	695,000	39,203
Business type activities		353,227	3,301	349,926	464,182	464,182	114,256
Total disbursements	<u>3,429,266</u>	<u>364,826</u>	<u>21,029</u>	<u>3,773,063</u>	<u>2,489,742</u>	<u>4,356,242</u>	<u>583,179</u>
Excess (deficiency) of receipts over (under) disbursements	(738,639)	231,320	(196)	(507,123)	(199,461)	(623,698)	116,575
Other financing sources, net	1,080,587	(79,588)		1,000,999		497,737	503,262
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	341,948	151,732	(196)	493,876	(199,461)	(125,961)	619,837
Balances beginning of year	1,914,128	892,324	183,511	2,622,941	2,365,043	2,365,043	257,898
Cash balances end of year	<u>\$ 2,256,076</u>	<u>1,044,056</u>	<u>183,315</u>	<u>3,116,817</u>	<u>2,165,582</u>	<u>2,239,082</u>	<u>877,735</u>

See accompanying independent auditor's report.

City of Garner

June 30, 2006

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. 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 \$1,442,263 and disbursements by \$1,866,500. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

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	Total	
	Housing Fund	Employee Benefits	Local Option Sales Tax	Industrial Crown Jewel	Industrial Revolving Loan	Retail Revolving Loan	Swimming Pool	Allen Street Sewer	Hejlik		Henschen Library Trust
Receipts:											
Property Tax		140,100									140,100
Other city tax			203,647								203,647
Use of money and property	\$ 11,251		5,639	54	4,687	924				5,980	28,535
Miscellaneous	13,500				25,946		195,765	5,177			240,388
Total receipts	24,751	140,100	209,286	54	30,633	924	195,765	5,177		5,980	612,670
Disbursements:											
Operating:											
Public safety		85,258									85,258
Public works		45,349									45,349
Culture and recreation		22,410								6,129	28,539
Community and economic development	170,410			10,267	37,520						218,197
General government		34,649									34,649
Capital projects							152,238	261,750	241,809		655,797
Total disbursements	170,410	187,666		10,267	37,520		152,238	261,750	241,809	6,129	1,067,789
Excess (deficiency) of receipts over (under) disbursements	(145,659)	(47,566)	209,286	(10,213)	(6,887)	924	43,527	(256,573)	(241,809)	(149)	(455,119)
Other financing sources (uses):											
Operating transfers out	(30,592)		(266,741)					(43,427)			(340,760)
Operating transfers in							21,063				21,063
Loan proceeds							22,000	300,000	500,000		822,000
Sale of assets	179,000										179,000
Total other financing sources (uses):	148,408		(266,741)				43,063	256,573	500,000		681,303
Net change in cash balances	2,749	(47,566)	(57,455)	(10,213)	(6,887)	924	86,590		258,191	(149)	226,184
Cash balances beginning of year	321,376	82,697	255,457	10,213	163,264	32,111				151,923	1,017,041
Cash balances end of year	\$ 324,125	35,131	198,002		156,377	33,035	86,590		258,191	151,774	1,243,225
Cash Basis Fund Balances											
Unreserved:											
Special revenue funds	\$ 324,125	35,131	198,002		156,377	33,035					746,670
Capital projects fund							86,590		258,191		344,781
Permanent fund										151,774	151,774
Total cash basis fund balances	\$ 324,125	35,131	198,002		156,377	33,035	86,590		258,191	151,774	1,243,225

See accompanying independent auditor's report.

City of Garner

Schedule of Indebtedness

Year ended June 30, 2006

<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:								
Essential corporate purpose	2-1-98	4.00 - 4.70%	\$ 1,695,000	585,000		185,000	400,000	27,023
REC loan	3-1-00	0.00	330,000	146,665		36,667	109,998	
Water and sewer improvements	2-1-00	4.43	330,000	69,593		69,593		3,083
Essential corporate purpose	3-1-00	4.97	272,274	152,704		35,446	117,258	7,589
Homeward, Inc.	10-26-04	Variable		194,385	441,815	336,200	300,000	
Aquatic Center (A)	7-12-06	4.15 - 4.30	22,000		22,000		22,000	
Total				<u>1,148,347</u>	<u>463,815</u>	<u>662,906</u>	<u>949,256</u>	<u>37,695</u>
Tax increment financing:								
Prairie Energy TIF	7-1-03	0.00	217,123	217,123			217,123	
Hejlik 1st subdivision TIF	7-15-04	2.87	200,000	160,000		40,000	120,000	4,592
Hejlik 2nd subdivision TIF	6-1-06	4.00	500,000		500,000		500,000	
Total				<u>377,123</u>	<u>500,000</u>	<u>40,000</u>	<u>837,123</u>	<u>4,592</u>
Revenue notes:								
Sewer	7-15-05	3.85	300,000		300,000	42,857	257,143	10,158
Internal loans:								
Hejlik water TIF			125,000	125,000			125,000	
Hejlik sewer TIF			100,000	100,000			100,000	
Total				<u>225,000</u>			<u>225,000</u>	
Total				<u>\$ 1,750,470</u>	<u>1,263,815</u>	<u>745,763</u>	<u>2,268,522</u>	<u>52,445</u>

(A) General Obligation Bonds \$2,200,000 issued July 12, 2006, \$22,000 good faith advance received June 2006.

See accompanying independent auditor's report.

Note and Bond Maturities
June 30, 2006

General Obligation Bonds and Notes

Year Ending June 30,	Essential Corporate Purpose Issued Feb 1, 1998		Fire Equipment Issued Mar 1, 2000		Municipal Building Issued Mar 1, 2000		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	4.60%	\$ 195,000	0.00%	36,667	4.97%	37,206	268,873
2008	4.70	205,000	0.00	36,667	4.97	39,056	280,723
2009			0.00	36,664	4.97	40,996	77,660
Total		<u>\$ 400,000</u>		<u>109,998</u>		<u>117,258</u>	<u>627,256</u>

Urban Renewal Tax

Year Ending June 30,	Hejliks 1st Subdivision Issued July 15, 2004		Prairie Energy TIF Issued July 1, 2003		Hejliks 2nd Subdivision Issued June 1, 2006		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	2.87%	\$ 40,000	0.00%	40,000	4.00%	63,315	143,315
2008	2.87	40,000	0.00	40,000	4.00	65,799	145,799
2009	2.87	40,000	0.00	40,000	4.00	68,479	148,479
2010			0.00	40,000	4.00	71,218	111,218
2011			0.00	40,000	4.00	74,067	114,067
2012			0.00	17,123	4.00	77,012	94,135
2013					4.00	80,110	80,110
Total		<u>\$ 120,000</u>		<u>217,123</u>		<u>500,000</u>	<u>837,123</u>

Revenue Notes

Year Ending June 30,	Sewer Issued July 15, 2005	
	Interest Rates	Amount
2007	3.85%	\$ 42,857
2008	3.85	42,857
2009	3.85	42,857
2010	3.85	42,857
2011	3.85	42,857
2012	3.85	42,858
Total		<u>\$ 257,143</u>

See accompanying independent auditor's report.

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 870,989	810,442	864,044	850,140
Tax increment financing	45,191	260,283	130,248	122,045
Other city tax	203,647	176,170	181,168	148,336
Licenses and permits	35,631	33,532	30,005	6,237
Use of money and property	83,390	128,433	44,325	104,508
Intergovernmental	285,702	295,118	309,126	481,316
Charges for service	169,488	172,796	166,334	641,324
Special assessments	358	1,048	5,110	13,277
Miscellaneous	996,231	787,150	206,533	253,569
Total	\$ 2,690,627	2,664,972	1,936,893	2,620,752
Disbursements:				
Operating:				
Public safety	\$ 466,120	436,599	374,743	343,528
Public works	419,539	619,378	325,712	693,632
Health and social services	4,500	10,350	3,200	27,400
Culture and recreation	279,907	271,278	245,806	236,801
Community and economic development	967,255	662,327	18,721	9,478
General government	173,741	165,577	154,725	165,803
Debt service	462,407	815,124	488,979	418,377
Capital projects	655,797	37,943	488,046	975,081
Total	\$ 3,429,266	3,018,576	2,099,932	2,870,100

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, 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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 20, 2006. 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 reportable 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 caused by error or fraud 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, 2006 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.

November 20, 2006

Renner & Birchem, P.C.

City of Garner

Schedule of Findings

Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Reportable conditions:

- (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 – Although the City has taken steps to improve computer controls, 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.

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

Conclusion – Response accepted.

Instances of Non-Compliance:

No matters were reported.

City of Garner

Schedule of Findings

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted in the Public Safety and Community and Economic Development functions.
- (2) Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979 or that were not properly documented. The City has established written policies and procedures, including the requirements for proper documentation.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.
- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions.
- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) 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.
- (8) Revenue Note – The City has complied with the revenue note resolutions.
- (9) Financial Condition – The Flex Plan Fund had a deficit balance at June 30, 2006 of \$614.

Recommendation – The City should investigate alternatives to eliminate this deficit.

Response – The deficit was due to costs incurred prior to receipt of funds.

Conclusion – Response accepted.