

CITY OF GOWRIE, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2006

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City of Gowrie, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Dick Phillips	Mayor	Jan 2008
Bill Bush	Council Member	Jan 2006
Damon Clancy	Council Member	Jan 2006
Maureen Rittgers	Council Member	Jan 2006
Kay Miller	Council Member	Jan 2008
Gayle Rabbitt	Council Member	Jan 2008
(After January 2006)		
Dick Phillips	Mayor	Jan 2008
Kay Miller	Council Member	Jan 2008
Gayle Rabbitt	Council Member	Jan 2008
Ken Pederson	Council Member	Jan 2010
Bill Bush	Council Member	Jan 2010
Dean Summers	Council Member	Jan 2010
Shelley Segebart	Clerk	Indefinite
Kevin Black	Treasurer	Indefinite
Johnson Law Firm	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, each major fund and the aggregate remaining fund information of the City of Gowrie, 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 Gowrie'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 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

The financial statements referred to above include only the primary government of the City of Gowrie, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Gowrie, Iowa as of June 30, 2006 and the changes in cash basis financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Gowrie 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 December 20, 2006 on our consideration of the City of Gowrie'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 4 through 9 and 20 through 24 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 Gowrie's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

December 20, 2006

Management's Discussion and Analysis

The City of Gowrie 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.

2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately \$1,676,000, including bond proceeds of \$855,500.
- Disbursements of the City's governmental activities were approximately \$1,992,000. Debt service and capital projects disbursements were approximately \$868,000 and \$628,816 respectively.
- The City's total cash basis net assets decreased 37%, or approximately \$312,000, from June 30, 2005 to June 30, 2006.

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.

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 contains the following 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.

Fund Financial Statements

The City has the following 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

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 decreased from a year ago, decreasing from \$844,000 to \$532,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	<u>Year ended June 30,</u> <u>2006</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 64
Operating grants, contributions and restricted interest	159
Capital grants, contributions and restricted interest	157
General receipts:	
Property tax	327
Local option sales tax	54
Unrestricted interest on investments	12
Bond proceeds	855
Other general receipts	48
Transfers, net	<u>4</u>
Total receipts and transfers	<u>1,680</u>
Disbursements:	
Public safety	131
Public works	103
Health and social services	63
Culture and recreation	141
General government	57
Debt service	868
Capital projects	<u>629</u>
Total disbursements	<u>1,992</u>
Increase in cash basis net assets	(312)
Cash basis net assets beginning of year	<u>844</u>
Cash basis net assets end of year	\$ 532 =====

The City's total receipts for governmental activities were \$1,680,058. Included in this total were bond proceeds of \$855,500 and property tax receipts of \$327,130.

The cost of all governmental activities this year was \$1,992,180. Included in this total were debt services disbursements of \$868,324 and capital projects disbursements of \$628,816.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gowrie completed the year, its governmental funds reported a combined fund balance of \$532,443, a decrease of more than \$312,000 below last year's total of \$844,615. 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 \$16,952 from the prior year to \$177,234. The increase was due to receiving more receipts than disbursements.
- The Capital Projects Fund cash balance decreased by \$426,813 to \$68,333 during the fiscal year. This decrease was due to the storm sewer project.
- The Debt Service Fund cash balance increased by \$64,418 to \$96,390 during the fiscal year. This increase was due to an increase in property tax.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 30, 2006 and resulted in an increase in operating disbursements of approximately \$1,367,775. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$884,000 in bonds and other long-term debt, as shown below.

	June 30,
	<u>2006</u>
General obligation bonds	\$ 830
Bank loan	<u>54</u>
Total	\$ 884
	===

Debt increased as a result of issuing general obligation bonds for a storm sewer construction project.

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 \$830,000 is below its constitutional debt limit of \$1,641,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The reason for the decrease in the revenues and expenditures was because of the reassessment on the property taxations that the state has imposed. Also, the City has enacted a tax abatement which started in 1994 for a ten-year period which was also re-enacted again in January of 2004 for another 10-year period.

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 Shelley Segebart, City Clerk, 1206 Market Street, Gowrie, Iowa 50543.

Basic Financial Statements

City of Gowrie, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2006

		Program Receipts		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 131,232	1,054	14,459	-
Public works	102,770	9,082	86,907	-
Health and social services	63,158	25,436	36,398	-
Culture and recreation	140,695	27,366	18,648	-
General government	57,185	1,242	2,228	-
Debt service	868,324	-	-	-
Capital projects	628,816	-	-	157,075
Total governmental activities	1,992,180	64,180	158,640	157,075

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
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:
 Streets
 Debt service
 Other purposes
Unrestricted
Total cash basis net assets

See notes to financial statements.

Net
 (Disbursements)
 Receipts and
 Changes in Cash
Basis Net Assets

Governmental
Activities

(115,719)
 (6,781)
 (1,324)
 (94,681)
 (53,715)
 (868,324)
(471,741)
(1,612,285)

206,415
 120,715
 53,636
 12,301
 855,500
 47,659
3,937
1,300,163
 (312,122)
844,615
\$ 532,493

107,597
 96,390
 87,939
240,567
\$ 532,493

City of Gowrie, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	<u>General</u>	<u>Capital Projects Storm Sewer</u>	<u>Debt Service</u>
Receipts:			
Property tax	\$ 159,476	-	119,364
Other city tax	1,753	-	1,350
Licenses and permits	1,721	-	-
Use of money and property	22,248	3,789	1,280
Intergovernmental	14,418	157,075	-
Charges for service	26,514	-	-
Special assessments	2,957	-	-
Miscellaneous	59,514	-	-
Total receipts	<u>288,601</u>	<u>160,864</u>	<u>121,994</u>
Disbursements:			
Operating:			
Public safety	85,027	-	-
Public works	31,632	-	-
Health and social services	-	-	-
Culture and recreation	112,091	-	-
General government	46,331	-	-
Debt service	-	-	868,324
Capital projects	-	628,816	-
Total disbursements	<u>275,081</u>	<u>628,816</u>	<u>868,324</u>
Excess (deficiency) of receipts over (under) disbursements	<u>13,520</u>	<u>(467,952)</u>	<u>(746,330)</u>
Other financing sources (uses):			
Bond proceeds	-	855,500	-
Operating transfers in	501,342	497,792	814,748
Operating transfers out	(497,910)	(1,312,153)	-
Total other financing sources (uses)	<u>3,432</u>	<u>41,139</u>	<u>814,748</u>
Net change in cash balances	16,952	(426,813)	68,418
Cash balances beginning of year	155,282	495,146	27,972
Cash balances end of year	<u>\$ 172,234</u>	<u>68,333</u>	<u>96,390</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	96,390
Unreserved:			
General fund	172,234	-	-
Special revenue funds	-	-	-
Capital project funds	-	68,333	-
Total cash basis fund balances	<u>\$ 172,234</u>	<u>68,333</u>	<u>96,390</u>

See notes to financial statements.

Nonmajor Governmental	
<u>Funds</u>	<u>Total</u>
44,690	323,530
54,132	57,235
-	1,721
1,599	28,916
123,305	294,798
25,436	51,950
-	2,957
-	59,514
<u>249,162</u>	<u>820,621</u>
46,205	131,232
71,138	102,770
63,158	63,158
28,604	140,695
10,854	57,185
-	868,324
-	628,816
<u>219,959</u>	<u>1,992,180</u>
<u>29,203</u>	<u>(1,171,559)</u>
-	855,500
118	1,814,000
-	(1,810,063)
<u>118</u>	<u>859,437</u>
29,321	(312,122)
166,215	844,615
<u>195,536</u>	<u>532,493</u>
-	96,390
-	172,234
195,536	195,536
-	68,333
<u>195,536</u>	<u>532,493</u>

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

For year ended June 30, 2006

	<u>Larson Trust Fund</u>
Additions:	
Interest	\$ 5,982
Total additions	<u>5,982</u>
 Deductions:	
Scholarships	<u>3,937</u>
Total deductions	<u>3,937</u>
Excess of additions over deductions	2,045
 Other financing uses:	
Transfer out	<u>(3,937)</u>
Change in net assets	(1,892)
Net assets beginning of the year	<u>201,892</u>
Net assets end of the year	<u><u>\$ 200,000</u></u>

See notes to financial statements.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Gowrie is a political subdivision of the State of Iowa located in Webster County. It was first incorporated in 1871 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, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, City of Gowrie 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.

These financial statements present the City of Gowrie (the primary government). The Gowrie Municipal Utilities (the Utility) is a component unit of the City of Gowrie because it is legally separate from the City but its operational or financial relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the City Council and the Utility's operating budget is subject to approval of the City Council. The financial statements and certain disclosures about the component unit are not included in this report because the component unit has been audited separately by us and a report has been issued under separate cover. The audited financial statements are available at the Gowrie Municipal Utilities.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

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: Webster County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of 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 service.

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.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

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 the other funds.

The Capital Projects Fund is used to account for construction costs.

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 also reports fiduciary funds which focus on net assets and changes in net assets.

C. Measurement Focus and Basis of Accounting

City of Gowrie 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

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 general public safety, health and social services, culture and recreation, debt service and capital projects functions.

(2) **Cash**

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 improvements certificates of a drainage district.

There were no investments at or during the year ended June 30, 2006. During the year, the City invested its excess funds in certificates of deposit.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

(3) Notes and Loans Payable

Annual debt service requirements to maturity for general obligation notes and loans are as follows:

Year Ending	Bank Loans		General Obligation Notes		Total	
	<u>June 30,</u> Principal	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,348	\$ 2,007	\$ 80,000	\$ 31,953	\$ 89,348	\$ 33,960
2008	9,693	1,663	80,000	29,072	89,693	30,735
2009	10,050	1,304	85,000	26,153	95,050	27,457
2010	9,065	935	90,000	23,007	99,065	23,942
2011	9,405	595	90,000	19,633	99,405	20,228
2012-2015	<u>6,463</u>	<u>242</u>	<u>405,000</u>	<u>41,582</u>	<u>411,463</u>	<u>41,824</u>
Total	\$ 54,024	\$ 6,746	\$ 830,000	\$ 171,400	\$ 884,024	\$ 178,146
	=====	=====	=====	=====	=====	=====

(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 covered salary and the City is required to contribute 5.75% of annual 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 year ended June 30, 2006 was \$8,867, equal to the required contributions for the year.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

(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. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave hours accumulate and are paid only when used. The City's approximate liability for earned vacation payments payable to employees at June 30, 2006 primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 1,100
	=====

This liability has been computed based on rates of pay in effect at 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	Capital Projects	\$ 497,405
	Fiduciary Fund	<u>3,937</u>
		501,342
Special Revenue		
Congregate Meals	General	118
Debt Service	Capital Project	814,748
Capital Projects	General	<u>497,792</u>
Total		\$ 1,814,000
		=====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Gowrie, Iowa

Notes to Financial Statements

June 30, 2006

(7) Risk Management

The City of Gowrie 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. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Construction Commitment

The City has entered into a construction contract totaling \$574,146 for a storm sewer project. As of June 30, 2006 costs of \$545,439 have been incurred on the project. The remaining \$28,707 will be paid as work on the project is completed.

(9) Litigation

The City is subject to pending litigation seeking title to some real estate. There is a fifty percent chance of loss of ownership of this property valued around \$5,000 but no outlay of cash is expected.

Required Supplementary Information

City of Gowrie, Iowa

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 <u>Actual</u>	<u>Budgeted Original</u>
Receipts:		
Property tax	\$ 323,530	323,207
Other city tax	57,235	43,867
Licenses and permits	1,721	1,425
Use of money and property	28,916	680
Intergovernmental	294,798	108,949
Charges for service	51,950	118,283
Special assessments	2,957	-
Miscellaneous	<u>59,514</u>	<u>56,009</u>
Total receipts	<u>820,621</u>	<u>652,420</u>
Disbursements:		
Public safety	131,232	99,768
Public works	102,770	127,511
Health and social services	63,158	-
Culture and recreation	140,695	103,492
General government	57,185	59,264
Debt service	868,324	133,970
Capital projects	<u>628,816</u>	<u>40,000</u>
Total disbursements	<u>1,992,180</u>	<u>564,005</u>
Excess (deficiency) of receipts over (under) disbursements	(1,171,559)	88,415
Other financing sources, net	<u>859,437</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(312,122)	88,415
Balances beginning of year	<u>844,615</u>	<u>446,685</u>
Balances end of year	<u>\$ 532,493</u>	<u>535,100</u>

See accompanying independent auditor's report.

<u>Amounts</u>	Final to Actual
<u>Final</u>	<u>Variance</u>
323,207	323
58,867	(1,632)
1,425	296
680	28,236
1,049,009	(754,211)
118,283	(66,333)
-	2,957
<u>65,933</u>	<u>(6,419)</u>
<u>1,617,404</u>	<u>(796,783)</u>
101,243	(29,989)
1,452,292	1,349,522
-	(63,158)
123,541	(17,154)
65,734	8,549
133,970	(734,354)
<u>55,000</u>	<u>(573,816)</u>
<u>1,931,780</u>	<u>(60,400)</u>
(314,376)	(857,183)
<u>1,101,199</u>	<u>(241,762)</u>
786,823	(1,098,945)
<u>446,685</u>	<u>397,930</u>
<u><u>1,233,508</u></u>	<u><u>(701,015)</u></u>

City of Gowrie, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

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 and Fiduciary 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, the Special Revenue Funds, the Debt Service Fund, and the Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of controls is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,367,775. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, debt service, and capital projects functions.

Other Supplementary Information

City of Gowrie, Iowa

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			
	Road Use Tax	Employee Benefits	Local Option Sales Tax	Congregate Meals
Receipts:				
Property tax	\$ -	44,690	-	-
Other city tax	-	496	53,636	-
Use of money and property	-	847	752	-
Intergovernmental	86,907	-	-	36,398
Charge for service	-	-	-	25,436
Total receipts	<u>86,907</u>	<u>46,033</u>	<u>54,388</u>	<u>61,834</u>
Disbursements:				
Operating:				
Public safety	-	11,453	34,752	-
Public works	54,110	10,865	6,163	-
Health and social services	-	-	-	63,158
Culture and recreation	-	11,835	16,769	-
General government	-	8,440	2,414	-
Total disbursements	<u>54,110</u>	<u>42,593</u>	<u>60,098</u>	<u>63,158</u>
Excess (deficiency) of receipts over (under) disbursements	<u>32,797</u>	<u>3,440</u>	<u>(5,710)</u>	<u>(1,324)</u>
Other financing sources:				
Operating transfers in	-	-	-	118
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>118</u>
Net change in cash balances	32,797	3,440	(5,710)	(1,206)
Cash balances beginning of year	74,800	23,870	66,413	1,132
Cash balances end of year	<u>\$ 107,597</u>	<u>27,310</u>	<u>60,703</u>	<u>(74)</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 107,597	27,310	60,703	(74)
Total cash basis fund balances	<u>\$ 107,597</u>	<u>27,310</u>	<u>60,703</u>	<u>(74)</u>

See accompanying independent auditor's report.

Total

44,690
54,132
1,599
123,305
25,436
249,162

46,205
71,138
63,158
28,604
10,854
219,959

29,203

118
118

29,321
166,215
195,536

195,536
195,536

City of Gowrie, Iowa
Schedule of Indebtedness
Year ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Storm sewer improvements	March 1, 2006	3.45-4.10 %	\$ 875,000
General obligation loan anticipation project note:			
Storm sewer interim financing	March 1, 2005	1.40 %	<u>\$ 800,000</u>
Security Savings Bank loan:			
Tractor	Oct. 30, 2002	3.75 %	<u>\$ 72,829</u>
Heartland Bank loan:			
Mower	Sept. 15, 2004	3.25 %	<u>\$ 5,000</u>

See accompanying independent auditor's report.

Schedule 2

<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>	<u>Interest Due and Unpaid</u>
<u>-</u>	<u>875,000</u>	<u>45,000</u>	<u>830,000</u>	<u>8,376</u>	<u>-</u>
<u>800,000</u>	<u>-</u>	<u>800,000</u>	<u>-</u>	<u>11,200</u>	<u>-</u>
<u>58,042</u>	<u>-</u>	<u>7,833</u>	<u>50,209</u>	<u>2,167</u>	<u>-</u>
<u>5,000</u>	<u>-</u>	<u>1,185</u>	<u>3,815</u>	<u>169</u>	<u>-</u>

Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30,</u>	<u>General Obligation Notes</u>	
	<u>Storm Sewer Improvement</u>	
	<u>Issued March 1, 2006</u>	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2007	3.60 %	\$ 80,000
2008	3.65	80,000
2009	3.70	85,000
2010	3.75	90,000
2011	3.80	90,000
2012	3.90	95,000
2013	3.95	100,000
2014	4.05	105,000
2015	4.10	<u>105,000</u>
Total		<u>\$ 830,000</u>

See accompanying independent auditor's report.

Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30,</u>	<u>Security Savings Bank Loan</u> Issued October 30, 2002		<u>Heartland Bank Loan</u> Issued September 15, 2004		<u>Total</u>
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amonut</u>	
2007	3.75 %	\$ 8,117	3.25 %	1,231	\$ 9,348
2008	3.75	8,422	3.25	1,271	9,693
2009	3.75	8,737	3.25	1,313	10,050
2010	3.75	9,065		-	9,065
2011	3.75	9,405		-	9,405
2012	3.75	6,463		-	6,463
Total		<u>\$ 50,209</u>		<u>3,815</u>	<u>54,024</u>

See accompanying independent auditor's report.

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Gowrie, 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 December 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 City of Gowrie'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 Gowrie'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 I of the accompanying Schedule of Findings and Questioned Costs.

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 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, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Gowrie'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 Part II of the accompanying Schedule of Findings.

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 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 City of Gowrie and other parties to whom City of Gowrie 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 City of Gowrie 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

December 20, 2006

City of Gowrie, Iowa

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

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

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

Response – We feel we have a division of duties to the greatest extent possible. We have a City Clerk and a City Treasurer. We try to segregate duties as much as possible with our staff. Therefore, we feel we are doing as much as we can based on the size of our City.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, health and social services, culture and recreation, debt service, and capital projects. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under the annual or continuing appropriation.

City of Gowrie, Iowa

Schedule of Findings

Year ended June 30, 2006

Recommendation – The budget was amended in accordance with Chapter 384.18 of the Code of Iowa, but the amounts were insufficient. The budget should have been amended in sufficient amounts and in the proper functional area before disbursements were allowed to exceed the budget.

Response – Adequate amendments will be made in the future, if applicable.

Conclusion – Response accepted.

- II-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-06 Business Transactions – No business transactions between the City and City officials or employees was noted.
- II-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.
- II-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We will publish minutes and salaries as required.

Conclusion – Response accepted.

City of Gowrie, Iowa

Schedule of Findings

Year ended June 30, 2006

II-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

II-H-06 Annual Financial Report – The annual financial report required by Chapter 384.22 of the Code of Iowa was completed and filed timely, however the balances reported on the report did not reconcile with the Clerk’s report.

Recommendation – The annual financial report should be reconciled to City’s ledgers and Clerk’s report.

Response – We will do this in the future.

Conclusion – Response accepted.

II-I-06 Financial Condition – The Special Revenue, Congregate Meals Fund had a deficit balance of \$74 at June 30, 2006.

Recommendation – The City should investigate alternatives to eliminate this deficit balance in order to return this fund to a sound financial position.

Response – The deficit was due to cost incurred prior to receipt of funds. The deficit will be eliminated when the funds are received.

Conclusion – Response accepted.