

CITY OF GARNER

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

JUNE 30, 2014

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-5
Management's Discussion and Analysis		6-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-28
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis)-All Governmental Funds and Proprietary Funds		30
Notes to Required Supplementary Information-Budgetary Reporting		31
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Governmental Funds	1	33
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances-Capital Projects Funds	2	34
Schedule of Indebtedness	3	35
Bond and Note Maturities	4	36
Schedule of Receipts by Source and Disbursements by Function-All Governmental Funds	5	37
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 <u>Government Auditing Standards</u>		38-39
Schedule of Findings		40-42

CITY OF GARNER

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Ken Mick	Mayor	Jan 2014
Deb Schmidt	Mayor Pro tem	Jan 2016
Lynn Smith	Council Member	Jan 2016
Dick Voortmann	Council Member	Jan 2014
George Smith	Council Member	Jan 2014
Denny Drabek	Council Member	Jan 2014
Daisy Huffman	City Clerk	Indefinite
Randy Lansing	City Administrator	Indefinite
Philip Garland	Attorney	Indefinite
(After January 2014)		
Ken Mick	Mayor	Jan 2018
Deb Schmidt	Mayor Pro tem	Jan 2016
Lynn Smith	Council Member	Jan 2016
Tim Schmidt	Council Member	Jan 2018
George Smith	Council Member	Jan 2018
Denny Drabek	Council Member	Jan 2018
Daisy Huffman	City Clerk/Treasurer	Indefinite
Randy Lansing	City Administrator	Indefinite
Philip Garland	Attorney	Indefinite



# Renner & Birchem, PC

Certified Public Accountants

"Where people who care make the difference"

DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

109 SECOND STREET N.E. • MASON CITY, IOWA 50401  
4 MAIN AVENUE SOUTH • BRITT, IOWA 50423  
226 WEST 4TH STREET • ST. ANSGAR, IOWA 50472

(641) 423-7155  
(641) 843-3729  
(641) 736-4324  
(866) 259-3667

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

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 City of Garner, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

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

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

### Opinions

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 City of Garner as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Garner's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 13 and 30 through 31 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2014 on our consideration of City of Garner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Garner's internal control over financial reporting and compliance.

December 8, 2014



Renner & Birchem, P.C.

Britt, Iowa

---

## **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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities realized a decrease of 4% or approximately \$138,856 from fiscal 2013 to fiscal 2014.
- Disbursements increased 46.9% or approximately \$1,534,221 due to the Aquatic Center Bond payoff.
- The City's total cash basis net position decreased approximately \$1,558,134 from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased approximately \$1,484,258 and the cash basis net position of the business type activities decreased approximately \$73,876. The governmental activities decrease was realized in the debt service fund to pay off Aquatic Center Bonds that were refunded. The decrease in business type activities was due to the use of fund reserves for capital projects.

### **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 Position. 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 financial 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.

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

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

## **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, readers 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, 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 statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

The required financial statements for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities shows a decrease of 40.8% from \$3.6 million to \$2.155 million. The analysis to follow focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities decreased approximately \$138,856 or 4%.

The City experienced no change in its property tax rate for 2014 at a rate of 13.24%. While maintaining a steady rate, property tax receipts for the year showed an increase of over \$24,110. Increased property tax valuations made this increase possible.

The cost of all governmental activities increased \$1,534,221 over the prior year a 46.9% increase. As shown in the Statement of Activities and Net Position on page 15, the amount taxpayers financed for these activities was \$3.9 million. Some of the cost was paid by those directly benefited from the programs (\$438,042) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$360,368). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased slightly from approximately \$794,000 to \$798,000. The City paid for the remaining "public benefit" portion of governmental activities (\$3.9 million) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements and refunding bond proceeds received in fiscal year 2012.

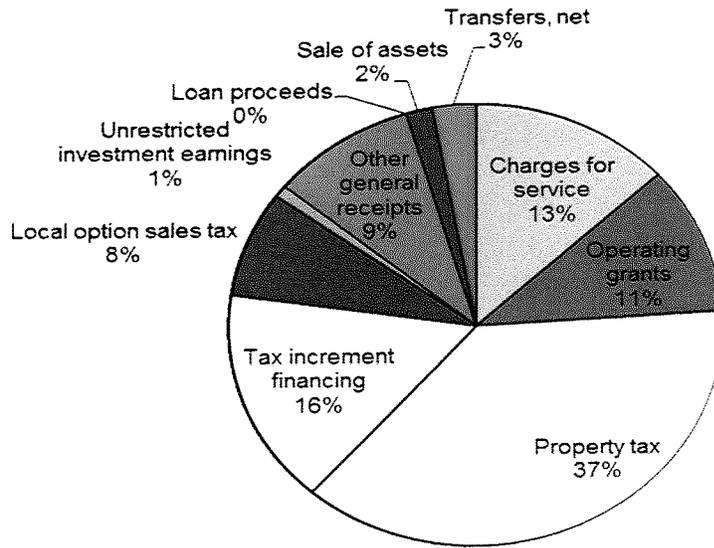
---

**Changes in Cash Basis Net Position of Governmental Activities**

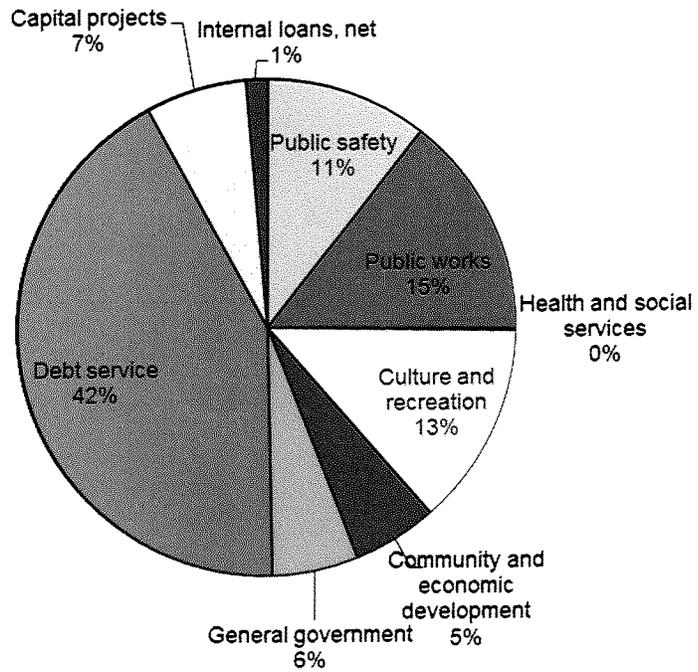
---

	Year Ended June 30,	
	2014	2013
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 438,042	447,951
Operating grants	360,368	345,759
General receipts:		
Property tax	1,243,904	1,219,794
Tax increment financing	522,722	478,891
Local option sales tax	255,833	259,213
Unrestricted investment earnings	29,325	9,180
Other general receipts	315,839	218,897
Loan proceeds		171,552
Sale of assets	56,083	67,578
Transfers, net	95,628	237,785
Total receipts and transfers	3,317,744	3,456,600
 Disbursements:		
Public safety	506,951	545,994
Public works	701,043	561,969
Health and social services	5,145	5,145
Culture and recreation	639,192	620,752
Community and economic development	263,709	272,916
General government	267,924	198,078
Debt service	2,036,978	586,092
Capital projects	313,261	421,776
Internal loan, net	67,799	55,059
Total disbursements	4,802,002	3,267,781
 Increase (decrease) in cash basis net position	(1,484,258)	188,819
 Cash basis net position beginning of year (as restated)	3,639,497	3,441,038
 Cash basis net position end of year	\$ 2,155,239	3,629,857

### Receipts by Source



### Disbursements by Function



Total business type activities receipts for the fiscal year were \$998,470 compared to \$971,409 last year. Total disbursements and transfers for the fiscal year remained steady at \$1,072,346, a 4% increase. Use of reserves for capital projects resulted in a decrease in net position of business type activities of \$73,876.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 299,651	302,259
Sewer	539,496	543,555
Storm sewer	60,172	60,222
General receipts:		
Unrestricted investment earnings	9,839	10,314
Miscellaneous	21,513	
Internal loans, net	67,799	55,059
Total receipts and transfers	<u>998,470</u>	<u>971,409</u>
Disbursements and transfers:		
Water	271,177	246,524
Sewer	643,000	536,213
Storm sewer	62,541	11,305
Transfers	95,628	237,785
Total disbursements and transfers	<u>1,072,346</u>	<u>1,031,827</u>
(Decrease) in cash basis net position	(73,876)	(60,418)
Cash basis net position beginning of year	<u>1,234,705</u>	<u>1,304,763</u>
Cash basis net position end of year	<u>\$ 1,160,829</u>	<u>1,244,345</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 \$2,155,239, a decrease of \$1,484,258 from last year's total of \$3,639,497. 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 increased \$53,239 from the prior year to \$1,063,819 due in part to setting money aside into maintenance fund for future projects.
- The Local Option Tax Fund cash balance decreased by \$108,318 to \$180,280. The decrease in fund reserves is due to purchase of golf course.
- The Housing Revolving Loan Fund cash balance increased by \$23,330 to \$403,246 due largely to proceeds from lot sales in Hejlik's Subdivision.
- The Debt Service Fund cash balance decreased by \$1,503,952 to \$15,337 during the fiscal year due to payment of Aquatic Center GO Refunding Bond.
- The Capital Projects Fund cash balance is -0- at June 30, 2014. Loan proceeds and transfers from other funds have been used to offset current project expenditures
- Non-major Governmental Funds increased by \$66,443 to \$492,557 due to repayment of internal loans.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$18,106 to \$313,213 due to capital projects.
- The Sewer Fund cash balance decreased by \$75,627 to \$746,807. This decrease was also due to capital projects.
- The Storm Sewer Fund cash balance realized an increase of \$19,857 to \$100,809 to be used for future equipment purchases and capital projects.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget twice. The amendments resulted in an increase to disbursements in several functions totaling \$2,335,500. Governmental Activity amendments were made due to the Aquatic Center bond refunding during the fiscal year.

## DEBT ADMINISTRATION

At June 30, 2014, the City had \$5,854,199 in bonds and other long-term debt, compared to \$7,846,781 the previous year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2013
General obligation bonds	\$ 3,526,199	5,346,781
Revenue notes	2,328,000	2,500,000
Total	\$ 5,854,199	7,846,781

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 \$3,526,199 is below its constitutional debt limit of \$8,559,332.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Garner's elected and appointed officials considered many factors when setting the fiscal year 2015 budget, tax rates and fees that will be charged for various City activities. As state and national economic conditions continue to improve, Garner shares in the optimism. With an unemployment rate of 4.2%, well below the national level of 7.6%, the local economy remains steady. City officials continue to be cautious looking to maintain a strong financial position when addressing government spending and yet were able to maintain the same tax rate of 13.24% for the fourth year in a row.

Even with no change in the tax rate, several projects have been planned, including a downtown revitalization project, if awarded a grant, a housing rehabilitation project, park upgrades and equipment replacements. Additionally, progress on the library remodeling project continues into fiscal year 2015.

## 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 Randy Lansing, City Administrator, 135 West 5th Street, Garner, Iowa.

## BASIC FINANCIAL STATEMENTS

## Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Operating Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
		Charges for Service				
<b>Functions / Programs:</b>						
Governmental activities:						
Public safety	\$ 506,951		19,098	(487,853)		(487,853)
Public works	701,043	160,511	312,942	(227,590)		(227,590)
Health and social services	5,145			(5,145)		(5,145)
Culture and recreation	639,192	277,131	28,328	(333,733)		(333,733)
Community and economic development	312,459			(312,459)		(312,459)
General government	266,174	400		(265,774)		(265,774)
Debt service	1,989,978			(1,989,978)		(1,989,978)
Capital projects	313,261			(313,261)		(313,261)
Total governmental activities	4,734,203	438,042	360,368	(3,935,793)		(3,935,793)
Business type activities:						
Water	271,177	299,651			28,474	28,474
Sewer	643,000	539,496			(103,504)	(103,504)
Storm sewer	62,541	60,172			(2,369)	(2,369)
Total business type activities	976,718	899,319			(77,399)	(77,399)
Total	\$ 5,710,921	1,337,361	360,368	(3,935,793)	(77,399)	(4,013,192)
<b>General Receipts:</b>						
Property tax levied for:						
General purposes				\$ 735,667		735,667
Tax increment financing				522,722		522,722
Employee benefits and insurance				258,860		258,860
Debt service				249,377		249,377
Local option sales tax				255,833		255,833
Unrestricted interest on investments				29,325	9,839	39,164
Miscellaneous				315,839	21,513	337,352
Sale of assets				56,083		56,083
Transfers				95,628	(95,628)	
Internal loan, net				(67,799)	67,799	
Total general receipts and transfers				2,451,535	3,523	2,455,058
Change in cash basis net position				(1,484,258)	(73,876)	(1,558,134)
Cash basis net position beginning of year				3,639,497	1,234,705	4,874,202
Cash basis net position end of year				\$ 2,155,239	1,160,829	3,316,068
<b>Cash Basis Net Position</b>						
Restricted:						
Expendable:						
Streets				\$ 106,495		106,495
Debt service				15,337	253,666	269,003
Other purposes				969,588		969,588
Unrestricted				1,063,819	907,163	1,970,982
Total cash basis net position				\$ 2,155,239	1,160,829	3,316,068

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, 2014

	Special Revenue					Total	
	General	Local Option Tax	Revolving Loan-Housing	Debt Service	Capital Projects		Nonmajor
<b>Receipts:</b>							
Property tax	\$ 735,667			249,377		258,860	1,243,904
Tax increment financing collections						522,722	522,722
Other city tax		255,833					255,833
Licenses and permits	41,267						41,267
Use of money and property	74,490	2,355	3,074	4,657		9,963	94,539
Intergovernmental	47,426					312,942	360,368
Charges for services	438,042						438,042
Special assessments	14,541						14,541
Miscellaneous	180,691		2,871		230	11,025	194,817
<b>Total receipts</b>	<b>1,532,124</b>	<b>258,188</b>	<b>5,945</b>	<b>254,034</b>	<b>230</b>	<b>1,115,512</b>	<b>3,166,033</b>
<b>Disbursements:</b>							
Operating:							
Public safety	393,452					113,499	506,951
Public works	203,829					497,214	701,043
Health and social services	5,145						5,145
Culture and recreation	594,374					44,818	639,192
Community and economic development	183,425		54,223			74,811	312,459
General government	231,737					34,437	266,174
Debt service				1,989,978			1,989,978
Capital projects					313,261		313,261
<b>Total disbursements</b>	<b>1,611,962</b>		<b>54,223</b>	<b>1,989,978</b>	<b>313,261</b>	<b>764,779</b>	<b>4,734,203</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>(79,838)</b>	<b>258,188</b>	<b>(48,278)</b>	<b>(1,735,944)</b>	<b>(313,031)</b>	<b>350,733</b>	<b>(1,568,170)</b>
<b>Other financing sources (uses):</b>							
Operating transfers in	190,483			231,992	313,031	90,501	826,007
Operating transfers out	(19,137)	(439,250)			(15,000)	(256,992)	(730,379)
Internal loan, net	(41,352)	72,744	18,608			(117,799)	(67,799)
Sale of assets	3,083		53,000				56,083
<b>Total other financing sources (uses)</b>	<b>133,077</b>	<b>(366,506)</b>	<b>71,608</b>	<b>231,992</b>	<b>298,031</b>	<b>(284,290)</b>	<b>83,912</b>
<b>Net change in cash balances</b>	<b>53,239</b>	<b>(108,318)</b>	<b>23,330</b>	<b>(1,503,952)</b>	<b>(15,000)</b>	<b>66,443</b>	<b>(1,484,258)</b>
<b>Cash balances beginning of year</b>	<b>1,010,580</b>	<b>288,598</b>	<b>379,916</b>	<b>1,519,289</b>	<b>15,000</b>	<b>426,114</b>	<b>3,639,497</b>
<b>Cash balances end of year</b>	<b>\$ 1,063,819</b>	<b>180,280</b>	<b>403,246</b>	<b>15,337</b>		<b>492,557</b>	<b>2,155,239</b>
<b>Cash Basis Fund Balances</b>							
Restricted for:							
Debt service				15,337			15,337
Streets						106,495	106,495
Other purposes		180,280	403,246			386,062	969,588
Unassigned	\$ 1,063,819						1,063,819
<b>Total cash basis fund balances</b>	<b>\$ 1,063,819</b>	<b>180,280</b>	<b>403,246</b>	<b>15,337</b>		<b>492,557</b>	<b>2,155,239</b>

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, 2014

	Enterprise Funds			
	Water	Sewer	Storm Sewer	Total
Operating receipts:				
Charges for services	\$ 299,651	539,496	60,172	899,319
Total operating receipts	299,651	539,496	60,172	899,319
Operating disbursements:				
Business type activities	271,177	389,750	62,541	723,468
Total operating disbursements	271,177	389,750	62,541	723,468
Excess (deficiency) of operating receipts over (under) operating disbursements	28,474	149,746	(2,369)	175,851
Non-operating receipts (disbursements):				
Interest on investments	2,526	6,600	713	9,839
Miscellaneous			21,513	21,513
Total non-operating receipts	2,526	6,600	22,226	31,352
Excess (deficiency) of receipts over (under) disbursements	31,000	156,346	19,857	207,203
Other financing sources (uses):				
Internal loan, net	37,799	30,000		67,799
Operating transfers out	(86,905)	(8,723)		(95,628)
Debt service repayment		(253,250)		(253,250)
Total other financing sources (uses)	(49,106)	(231,973)		(281,079)
Net change in cash balances	(18,106)	(75,627)	19,857	(73,876)
Cash balances beginning of year	331,319	822,434	80,952	1,234,705
Cash balances end of year	\$ 313,213	746,807	100,809	1,160,829
<b>Cash Basis Fund Balances</b>				
Restricted for debt service		253,666		253,666
Unrestricted	\$ 313,213	493,141	100,809	907,163
Total cash basis fund balances	\$ 313,213	746,807	100,809	1,160,829

See notes to financial statements.

# CITY OF GARNER

## Notes to Financial Statements

June 30, 2014

### **(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 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 Emergency Management Commission, Hancock County Assessor's Conference Board, Garner Area Community Betterment Association and Hancock County Economic Development Corporation.

#### B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

# CITY OF GARNER

## Notes to Financial Statements

June 30, 2014

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

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 not paid from other funds.

Special Revenue:

The Local Option Fund is used to account for local option tax receipts and disbursements.

The Revolving Loan-Housing Fund is used to account for development activities for housing projects.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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

CITY OF GARNER

Notes to Financial Statements

June 30, 2014

The City reports the following major proprietary funds:

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

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

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

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.

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 position 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.

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. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

CITY OF GARNER

Notes to Financial Statements

June 30, 2014

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

**(2) Cash and Investments**

The City's deposits in banks at June 30, 2014 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.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

The Henschen Library Trust investments at June 30, 2014 are as follows:

	<u>Carrying</u>	<u>Market</u>
	<u>Amount</u>	<u>Value</u>
Donated stock and stock funds	<u>\$ 151,664</u>	<u>\$ 344,628</u>

The donated stock and stock funds are included in the Trust Fund-Henschen Library Trust. The stock was bequeathed 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.

CITY OF GARNER

Notes to Financial Statements

June 30, 2014

**(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 Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 381,199	93,994	178,000	69,840	559,199	163,834
2016	370,000	85,943	183,000	64,500	553,000	150,443
2017	375,000	77,913	189,000	59,010	564,000	136,923
2018	360,000	69,455	196,000	53,340	556,000	122,795
2019	370,000	60,245	154,000	47,460	524,000	107,705
2020-2024	1,670,000	133,508	849,000	194,910	2,519,000	328,418
2025-2027			579,000	35,100	579,000	35,100
	<u>\$ 3,526,199</u>	<u>521,058</u>	<u>2,328,000</u>	<u>524,160</u>	<u>5,854,199</u>	<u>1,045,218</u>

Revenue Notes

The City has pledged future sewer customer receipts, net of specific operating disbursements to repay \$2,935,000 of sewer revenue notes. Proceeds from the notes provided financing for the construction of the wastewater treatment plant and sewer trunkline. The notes are payable solely from sewer customer net receipts and are payable through 2027. Total principal and interest remaining to be paid on the notes is \$2,852,160. For the current year, principal and interest paid and total customer receipts were \$247,000 and \$539,496, respectively.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking fund within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) All funds remaining in the sewer account after the payment of all maintenance and operating expenses and required transfers shall be placed in a surplus fund within the Enterprise Funds. All money credited to the surplus fund shall be transferred and credited to the sinking fund whenever necessary to prevent or remedy a default in the payment of the principal of or interest on the notes.

## CITY OF GARNER

### Notes to Financial Statements

June 30, 2014

#### Internal Loans

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 2005-1. 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.

Advances of \$115,000 were made from the Local Option Fund and \$100,000 from the Housing Revolving Loan Fund to the Capital Projects Fund in order to pay the costs of construction for rehabilitation clinic for Hancock County Memorial Hospital. These advances, totaling \$215,000, shall be treated as a loan (the "Loan") to the Capital Project Fund and shall be repaid to the Local Option Fund and the Housing Revolving Loan Fund.

An advance of \$250,000 was made from the Local Option Fund to the Touchstone-TIF Fund in order to pay for infrastructure. This advance shall be treated as a loan (the "Loan") to the Touchstone-TIF Fund and shall be repaid to the Local Option Fund.

An advance of \$64,636 was made from the Revolving Loan-Industry Fund to the Touchstone-TIF Fund in order to purchase 64.5 acres of land. This advance shall be treated as a loan (the "Loan") to the Touchstone-TIF Fund and shall be repaid to the Revolving Loan-Industry Fund.

An advance of \$8,988 was made from the Housing Revolving Loan Fund to the Kadrluk Touchstone-TIF Fund in order to pay the initial costs for a feasibility study regarding a potential new motel. This advance shall be treated as a loan (the "Loan") to the Kadrluk Touchstone-TIF Fund and shall be repaid to the Housing Revolving Loan Fund.

An advance of \$28,970 was made from the Revolving Loan-Industry Fund to the Kadrluk Touchstone-TIF in order to pay for infrastructure for Steller expansion. This advance shall be treated as a loan (the "Loan") to the Kadrluk Touchstone-TIF Fund and shall be repaid to the Revolving Loan-Industry Fund.

Payments on the loans 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 parity with the loan or may have a priority over the loan with respect to the revenues in the Tax Increment Fund. The internal loans principal balance outstanding at June 30, 2014 is \$275,355.

# CITY OF GARNER

## Notes to Financial Statements

June 30, 2014

### **(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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 contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$74,125, \$72,069 and \$68,104 respectively, equal to the required contributions for each year.

### **(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 14 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with True North Companies/Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

The dental benefits are provided through a fully-insured plan with True North Companies/Blue Dental. Retirees pay the same premium for dental benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. For the year ended June 30, 2014, the City disbursed \$131,157.

CITY OF GARNER

Notes to Financial Statements

June 30, 2014

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time 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. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2014</u>
Vacation	\$ 38,823
Comp	<u>3,346</u>
	\$ <u>42,169</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option	\$175,484
	Capital Projects	<u>15,000</u>
		<u>190,484</u>
Special Revenue: RUT	Special Revenue:	
	Local Option	54,618
	General	<u>10,883</u>
		<u>65,501</u>
Capital Project	General	8,254
	Special Revenue:	
	Local Option	209,148
	Enterprise:	
	Sewer	8,724
	Water	<u>86,905</u>
		<u>313,031</u>
Debt Service	Special Revenue:	
	Tax Increment	<u>231,992</u>
Special Revenue: CDBG Housing Rehab	Special Revenue:	
	Tax Increment	<u>25,000</u>
Total		\$ <u>826,008</u>

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

# CITY OF GARNER

## Notes to Financial Statements

June 30, 2014

### **(8) Related Party Transactions**

The City had business transactions between the City and City officials, during the year ended June 30, 2014, totaling \$16,524.

### **(9) Risk Management**

The City 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 700 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.

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 at a level determined by the Board not to exceed 300% of total 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, 2014 were \$104,837.

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. For members requiring specific coverage from \$3,000,000 to \$15,000,000 such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Lexington Insurance Company.

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-

# CITY OF GARNER

## Notes to Financial Statements

June 30, 2014

sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2014, 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 casualty 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount to capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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.

### **(10) Homeward, Inc. Loan**

In October 2005 the City entered into an agreement with Homeward, Inc., an Iowa non-profit corporation, eligible to borrow up to a total of \$120,000. 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 \$120,000, 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, 2014 is \$120,146 including accrued interest.

### **(11) Deferred Compensation Agreements**

The City offers all City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the City's financial statements. The City does not make any contributions under the agreement.

CITY OF GARNER

Notes to Financial Statements

June 30, 2014

**(12) Accounting Change/Restatement**

The Internal Service fund was combined with the Employee Benefits fund as of July 1, 2013. The effect of fund type reclassifications is as follows:

	Employee Benefits	Internal Service Fund
Balance June 30, 2013, as previously reported	\$ 10,076	25,807
Change in fund type classification per implementation of GASB Statement No.54	25,807	(25,807)
Balance July 1, 2013, as restated	<u>\$ 35,883</u>	<u>                    </u>

**(13) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No.27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## OTHER INFORMATION

City of Garner

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

Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
<b>Receipts:</b>							
Property tax	\$ 1,243,904			1,243,904	1,208,752	1,208,752	35,152
Tax increment financing collections	522,722			522,722	511,321	511,321	11,401
Other city tax	255,833			255,833	274,897	274,897	(19,064)
Licenses and permits	41,267			41,267	34,230	34,230	7,037
Use of money and property	94,539	9,839	9,353	95,025	92,146	92,146	2,879
Intergovernmental	360,368			360,368	711,537	711,537	(351,169)
Charges for services	438,042	899,319		1,337,361	1,396,864	1,396,864	(59,503)
Special assessments	14,541			14,541	10,700	10,700	3,841
Miscellaneous	194,817	21,513		216,330	192,227	332,227	(115,897)
<b>Total receipts</b>	<b>3,166,033</b>	<b>930,671</b>	<b>9,353</b>	<b>4,087,351</b>	<b>4,432,674</b>	<b>4,572,674</b>	<b>(485,323)</b>
<b>Disbursements:</b>							
Public safety	506,951			506,951	518,748	548,748	41,797
Public works	701,043			701,043	616,397	741,397	40,354
Health and social services	5,145			5,145	5,100	5,600	455
Culture and recreation	639,192		8,903	630,289	679,340	754,340	124,051
Community and economic development	312,459			312,459	626,012	926,012	613,553
General government	266,174			266,174	206,784	281,784	15,610
Debt service	1,989,978			1,989,978	478,133	1,998,133	8,155
Capital projects	313,261			313,261	698,340	758,340	445,079
Business type activities		723,468		723,468	957,677	1,107,677	384,209
<b>Total disbursements</b>	<b>4,734,203</b>	<b>723,468</b>	<b>8,903</b>	<b>5,448,768</b>	<b>4,786,531</b>	<b>7,122,031</b>	<b>1,673,263</b>
Excess (deficiency) of receipts over (under) disbursements	(1,568,170)	207,203	450	(1,361,417)	(353,857)	(2,549,357)	1,187,940
Other financing sources, net	83,912	(281,079)		(197,167)	34,500	34,500	(231,667)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,484,258)	(73,876)	450	(1,558,584)	(319,357)	(2,514,857)	956,273
Balances beginning of year	3,639,497	1,234,705	151,712	4,722,490	3,200,463	4,722,491	(1)
Cash balances end of year	\$ 2,155,239	1,160,829	152,162	3,163,906	2,881,106	2,207,634	956,272

See accompanying independent auditor's report.

City of Garner

Notes to Other Information – Budgetary Reporting

June 30, 2014

The budgetary comparison is presented 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 the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise 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, two budget amendments increased budgeted disbursements by \$2,335,500. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

## City of Garner

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

As of and for the year ended June 30, 2014

	Special Revenue						Permanent	Total
	Road Use Tax	Employee Benefits	Urban			CDBG Housing Rehab	Henschen Library Trust	
			Renewal Tax Increment	Industrial Revolving Loan	Retail Revolving Loan			
Receipts:								
Property tax		258,860						258,860
Tax increment financing collections			522,722					522,722
Use of money and property				342	268		9,353	9,963
Intergovernmental	\$ 312,442					500		312,942
Miscellaneous	5,005	1,786		2,400	1,834			11,025
Total receipts	317,447	260,646	522,722	2,742	2,102	500	9,353	1,115,512
Disbursements:								
Operating:								
Public safety		113,499						113,499
Public works	435,267	61,947						497,214
Culture and recreation		35,915					8,903	44,818
Community and economic development			69,277		3,784	1,750		74,811
General government		34,437						34,437
Total disbursements	435,267	245,798	69,277		3,784	1,750	8,903	764,779
Excess (deficiency) of receipts over (under) disbursements	(117,820)	14,848	453,445	2,742	(1,682)	(1,250)	450	350,733
Other financing sources (uses):								
Operating transfers in	65,501					25,000		90,501
Operating transfers out			(256,992)					(256,992)
Internal loans, net			(186,434)	68,635				(117,799)
Total other financing sources (uses):	65,501		(443,426)	68,635		25,000		(284,290)
Net change in cash balances	(52,319)	14,848	10,019	71,377	(1,682)	23,750	450	66,443
Cash balances beginning of year	158,814	35,883		42,833	36,872		151,712	426,114
Cash balances end of year	\$ 106,495	50,731	10,019	114,210	35,190	23,750	152,162	492,557
<b>Cash Basis Fund Balances</b>								
Restricted for streets	\$ 106,495							106,495
Restricted for other purposes		50,731	10,019	114,210	35,190	23,750	152,162	386,062
Total cash basis fund balances	\$ 106,495	50,731	10,019	114,210	35,190	23,750	152,162	492,557

See accompanying independent auditor's report.

## City of Garner

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances  
Capital Projects Funds

As of and for the year ended June 30, 2014

	2013 Street/Utility	Library Remodel	Pool Shelter	Sewer Slip Line	Golf Course	Water Generator	Total
Receipts:							
Miscellaneous	\$ 200					30	230
Total receipts	200					30	230
Disbursements:							
Capital projects	75,453	8,254		8,724	209,148	11,682	313,261
Total disbursements	75,453	8,254		8,724	209,148	11,682	313,261
Excess (deficiency) of receipts over (under) disbursements	(75,253)	(8,254)		(8,724)	(209,148)	(11,652)	(313,031)
Other financing sources (uses):							
Operating transfers in	75,253	8,254		8,724	209,148	11,652	313,031
Operating transfers out			(15,000)				(15,000)
Total other financing sources (uses):	75,253	8,254	(15,000)	8,724	209,148	11,652	298,031
Net change in cash balances			(15,000)				
Cash balances beginning of year			15,000				15,000
Cash balances end of year	\$ -						

See accompanying independent auditor's report.

## City of Garner

## Schedule of Indebtedness

Year ended June 30, 2014

Obligation	Date of Issue	Rate of Interest	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Aquatic Center	7-12-06	4.15 - 4.30	2,200,000	\$ 1,605,000		1,605,000		67,848
REC-Aquatic Center	12-1-06	0.00	300,000	120,000		30,000	90,000	
Recreation Center	5-1-08	3.00 - 4.00	2,750,000	2,005,000		165,000	1,840,000	77,450
Fire Truck	9-1-09	3.00	100,000	41,781		20,582	21,199	1,253
Refunding Bonds, Series 2012	4-10-12	.65-2.15	1,575,000	1,575,000			1,575,000	11,048
Total				5,346,781		1,820,582	3,526,199	157,599
Revenue notes:								
Sewer-WWTP	1-13-10	3.00	2,640,000	2,282,000		131,000	2,151,000	68,460
Sewer-Trunkline	3-31-11	3.00	295,000	218,000		41,000	177,000	6,540
Total				2,500,000		172,000	2,328,000	75,000
Internal loans:								
Urban Renewal Area I	11-23-09		250,000	191,983		50,000	141,983	
Hejlik water TIF	7-16-04		125,000	37,798		37,798		
Hejlik sewer TIF	7-16-04		100,000	30,000		30,000		
Touchstone TIF	11-26-08		64,636	42,306		27,687	14,619	2,538
Rec Center	9-30-09	6.00	215,000	115,184		34,389	80,795	6,963
Kadrlik/Touchstone-Hotel	6-30-12		8,988	8,988			8,988	
Kadrlik/Touchstone-Stellar	6-30-12		28,970	28,970			28,970	
Total				455,229		179,874	275,355	9,501
Total				\$ 8,302,010		2,172,456	6,129,554	242,100

See accompanying independent auditor's report.

Bond and Note Maturities

June 30, 2014

General Obligation Bonds and Notes

Year Ending June 30.	REC-Aquatic Center		Recreation Center		Fire Truck		Aquatic Center, Series 2012		Total
	Issued December 1, 2006		Issued May 12, 2008		Issued September 1, 2009		Issued April 10, 2012		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2015	0.00%	\$ 30,000	3.75%	170,000	3.00%	21,199	.65%	160,000	381,199
2016	0.00	30,000	3.75	180,000			.80	160,000	370,000
2017	0.00	30,000	3.75	185,000			.95	160,000	375,000
2018			3.75	195,000			1.15	165,000	360,000
2019			3.75	205,000			1.35	165,000	370,000
2020			4.00	210,000			1.70	170,000	380,000
2021			4.00	220,000			1.70	170,000	390,000
2022			4.00	230,000			1.70	175,000	405,000
2023			4.00	245,000			1.75	175,000	420,000
2024							1.75	75,000	75,000
Total		<u>90,000</u>		<u>1,840,000</u>		<u>21,199</u>		<u>1,575,000</u>	<u>3,526,199</u>

Revenue Notes

Year Ending June 30.	Sewer				Total
	Issued January 13, 2010		Issued March 31, 2011		
	Interest Rates	Amount	Interest Rates	Amount	
2015	3.00%	\$ 136,000	3.00%	42,000	178,000
2016	3.00	140,000	3.00	43,000	183,000
2017	3.00	144,000	3.00	45,000	189,000
2018	3.00	149,000	3.00	47,000	196,000
2019	3.00	154,000			154,000
2020	3.00	159,000			159,000
2021	3.00	164,000			164,000
2022	3.00	170,000			170,000
2023	3.00	175,000			175,000
2024	3.00	181,000			181,000
2025	3.00	187,000			187,000
2026	3.00	193,000			193,000
2027	3.00	199,000			199,000
Total		<u>\$ 2,151,000</u>		<u>177,000</u>	<u>2,328,000</u>

See accompanying independent auditor's report.

## City of Garner

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

For the Last Ten Years

	2014	2,013	2,012	2,011	2010	2009	2008	2007	2006	2005
<b>Receipts:</b>										
Property tax	\$ 1,243,904	1,219,794	1,180,724	1,130,876	1,053,384	1,029,615	1,091,666	979,610	870,989	810,442
Tax increment financing	522,722	478,891	441,712	454,085	423,346	333,998	108,444	48,580	45,191	260,283
Other city tax	255,833	259,213	247,293	186,772	255,811	232,625	183,394	192,254	203,647	176,170
Licenses and permits	41,267	35,472	37,530	32,973	31,151	35,564	36,202	36,033	35,631	33,532
Use of money and property	94,539	98,317	89,275	90,512	93,316	122,137	105,527	176,676	83,390	128,433
Intergovernmental	360,368	345,759	340,715	552,718	737,673	285,561	338,246	284,303	285,702	295,118
Charges for service	438,042	447,951	455,640	454,899	353,231	237,516	247,509	219,975	169,488	172,796
Special assessments	14,541	17,578	9,989	9,103	9,770	8,221	7,721	7,757	358	1,048
Miscellaneous	194,817	76,710	78,827	209,632	241,537	546,459	628,386	1,008,284	996,231	787,150
<b>Total</b>	<b>\$ 3,166,033</b>	<b>2,979,685</b>	<b>2,881,705</b>	<b>3,121,570</b>	<b>3,199,219</b>	<b>2,831,696</b>	<b>2,747,095</b>	<b>2,953,472</b>	<b>2,690,627</b>	<b>2,664,972</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	\$ 506,951	551,587	542,016	547,080	473,861	501,027	454,291	479,561	466,120	436,599
Public works	701,043	562,969	567,747	612,293	563,040	551,037	591,630	584,958	419,539	619,378
Health and social services	5,145	5,145	5,145	5,023	4,900	4,900	4,900	4,900	4,500	10,350
Culture and recreation	639,192	623,792	695,629	624,084	573,737	431,344	421,964	303,752	279,907	271,278
Community and economic development	312,459	272,916	145,571	173,249	141,902	256,082	429,624	602,993	967,255	662,327
General government	266,174	196,937	183,424	201,659	175,581	169,296	168,744	164,152	173,741	165,577
Debt service	1,989,978	586,092	593,636	750,337	718,247	757,950	724,680	595,861	462,407	815,124
Capital projects	313,261	421,776	458,628	3,425,143	2,936,233	1,861,183	456,654	3,302,859	655,797	37,943
<b>Total</b>	<b>\$ 4,734,203</b>	<b>3,221,214</b>	<b>3,191,796</b>	<b>6,338,868</b>	<b>5,587,501</b>	<b>4,532,819</b>	<b>3,252,487</b>	<b>6,039,036</b>	<b>3,429,266</b>	<b>3,018,576</b>

See accompanying independent auditor's report.



# Renner & Birchem, PC

Certified Public Accountants

*"Where people who care make the difference"*

DENNIS L. RENNER, CPA  
MICHAEL J. BIRCHEM, CPA, CFP®

109 SECOND STREET N.E. • MASON CITY, IOWA 50401  
4 MAIN AVENUE SOUTH • BRITT, IOWA 50423  
226 WEST 4TH STREET • ST. ANSGAR, IOWA 50472

(641) 423-7155  
(641) 843-3729  
(641) 736-4324  
(866) 259-3667

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 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, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Garner, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Garner's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-14 and I-B-14 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 which 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, 2014 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.

## City of Garner's Responses to the Findings

City of Garner's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Garner's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of 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.

December 8, 2014

  
Renner & Birchem, P.C.  
Britt, Iowa

City of Garner

Schedule of Findings

Year Ended June 30, 2014

Part I: Findings Related to the Financial Statements:

**Significant Deficiencies:**

I-A-14 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 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.

I-B-14 Preparation of Financial Statements – The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of Garner. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No matters were noted.

City of Garner  
 Schedule of Findings  
 Year Ended June 30, 2014

Part II: Other Findings Related to Statutory Reporting:

II-A-14 Certified Budget – Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted.

II-B-14 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, as part of their adopted administrative policies.

II-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lynn Smith, Council Member Owner Smith Hardware	Supplies & repairs	\$15,626
Mark Waddingham, Employee Owner, Waddingham Construction	Construction	\$ 898

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with council member Smith may represent a conflict of interest since a competitive bidding process was not utilized for all transactions and the total of the transactions were in excess of \$1,500.

Recommendation – The city should use a competitive bidding process when practicable.

Response – The transactions were normal expenses and competitive bidding was not practicable.

Conclusion - Response accepted.

II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

II-F-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Garner

Schedule of Findings

Year Ended June 30, 2014

Part II: Other Findings Related to Statutory Reporting: (con't)

- II-G-14 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.
- II-H-14 Revenue Note – The City has complied with the revenue note provisions. Required Sewer Revenue Bond Sinking Fund has been created.
- II-I-14 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before the extended due date and no exceptions were noted.