

CITY OF GARDNER, KANSAS

---

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Prepared by:

Finance Department  
City of Gardner, Kansas

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2006

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	i - viii
Organizational Chart	ix
List of Elected and Appointed Officials	x
Certificate of Achievement for Excellence in Financial Reporting	xi
FINANCIAL SECTION:	
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 15
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18 - 19
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	21 - 22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	23

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2006

TABLE OF CONTENTS  
(Continued)

	<u>Page</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	24
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Improvement Fund	25
Statement of Net Assets – Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28 - 29
Statement of Fiduciary Net Assets - Fiduciary Fund	30
Notes to Basic Financial Statements	31 - 65
Other Supplementary Information:	
Combining Balance Sheet – Nonmajor Governmental Funds	66 - 71
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	72 - 77
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Special Highway Fund	78
Special Parks and Recreation Fund	79
Special Alcohol/Drug Program Fund	80
Economic Development Reserve Fund	81
Risk Management Reserve Fund	82
Capital Improvement Reserve Fund	83
Park Improvement Reserve Fund	84
East Santa Fe TIF District	85
Park Sales Tax Fund	86
Debt Service Fund	87

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2006

TABLE OF CONTENTS  
(Continued)

	<u>Page</u>
Combining Statement of Net Assets – Internal Service Funds	88
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds	89
Combining Statement of Cash Flows – Internal Service Funds	90
Statement of Cash Flows – Airport Association Component Unit	91
Statement of Changes in Assets and Liabilities - Agency Fund	92
STATISTICAL SECTION (UNAUDITED):	93
Net Assets by Component	94
Changes in Net Assets	95
Fund Balances of Governmental Funds	96
Changes in Fund Balances, Governmental Funds	97
Utilities Produced, Consumed and Treated	98
Annual Electric and Water Meter Installations	99
Number of Electric, Water, and Wastewater Customers by Type	100
Electric, Water, and Wastewater Rates	101
Ten Largest Electric, Water, and Wastewater Customers	102
Assessed Value and Estimated Actual Value of Taxable Property	103
Direct and Overlapping Property Tax Rates	104
Principal Property Tax Payers	105
Property Tax Levies and Collections	106
Ratios of Outstanding Debt by Type	107 – 108
Ratios of General Bonded Debt Outstanding	109
Direct and Overlapping Governmental Activities Debt	110
Legal Debt Margin Information	111
Demographics and Economic Statistics	112
Principal Employers	113
Full-time Equivalent City Government Employees by Function	114
Operating Indicators by Function	115
Capital Asset Statistics by Function	116

CITY OF GARDNER, KANSAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

Year Ended December 31, 2006

TABLE OF CONTENTS  
(Continued)

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	117 - 118
Schedule of Findings and Responses	119



---

120 E. Main, Gardner, Kansas 66030 (913) 856-7535

June 20, 2007

The Honorable Mayor, City Council, Citizens,  
Taxpayers, and Other Interested Parties of the  
City of Gardner, Kansas:

The Comprehensive Annual Financial Report (CAFR) of the City of Gardner (the City) for the fiscal year ended December 31, 2006 is hereby submitted. This is the third year that the City has prepared a CAFR, and staff has submitted this CAFR for a Certificate of Achievement for Excellence in Financial Reporting with the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that conforms to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe this report conforms to the Certificate of Achievement program requirements.

The report was prepared by the City's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the government. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in three sections: introductory, financial, and statistical.

The Introductory Section includes this transmittal letter, the City's organizational chart, a list of principal officials, and a copy of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended December 31, 2005.

The Financial Section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), government-wide financial statements, fund financial statements, notes to the financial statements, and individual and combining statements and schedules. MD&A provides a narrative introduction, overview and analysis of the

basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The Statistical Section includes selected financial and demographic information, generally presented in a multi-year historical format.

### **Internal Control Structure and Budgetary Controls**

The City is responsible for establishing and maintaining internal control designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal requirements of Kansas Statutes. Activities of the General Fund, special revenue funds (unless exempted by a specific statute), enterprise funds, and the Debt Service Fund are included in the annual appropriated budget, as required by Kansas Statutes. Spending in funds which are not subject to said Statutes is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City.

As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

### **Cash Management**

The City has a written investment policy stating the primary objective of safety of principal, followed by liquidity needs, and then rate of return on investments. The policy also requires a collateralization level of 105% of market value of principal and accrued interest, including FDIC.

### **Risk Management**

The City obtains employee health insurance through MARCIT. MARCIT is a public entity self-insurance pool providing workers' compensation, liability, property, health, dental and vision insurance to a membership of more than 70 Missouri and Kansas local governments. Under special agreement with the Kansas Department of Insurance, as permitted by state law, MARCIT offers health, dental, and vision coverage to local governments in the five Kansas counties in the greater Kansas City metropolitan area.

The City provides workers' compensation through its membership in the Kansas Eastern Region Insurance Trust (KERIT). KERIT is a group self insured program that provides workers' compensation benefits to employees of Trust members. The program is

designed to provide members a greatly improved loss control program whose purpose is to reduce claims, accidents, and costs through sound and equitable claim management practices and provide the required excess insurance at a discount based on volume and lower risk exposure. In order to raise the level of safety awareness among all employees to keep the annual premiums to KERIT as low as possible, the City has an internal Safety Committee comprised of representatives from all departments. The committee reviews accidents, discusses safety issues, and implements organization-wide safety programs.

Liability, property, and other insurance coverage is purchased from outside sources.

### **Independent Audit**

Kansas Statutes Annotated 75-1122 requires an annual audit of the accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants. The accounting firm of Berberich Trahan & Co., P.A. was selected by the City Council. The auditor's report on the financial statements is included in the Financial Section of this report.

### **Profile of the Government**

The City of Gardner was established on March 16, 1858 and came under the jurisdiction of the State of Kansas in 1861. The City was incorporated as a Municipal Corporation of the third class in January 1887 and as a Municipal Corporation of the second class in December 2002. The City is located in Johnson County, Kansas, along Interstate 35, about 30 miles southwest of downtown Kansas City, Missouri. Johnson County, Kansas is considered to be the top growth area in the state, and one of the top growth areas in the country. Because of Gardner's location on the edge of the Kansas City metropolitan area, it serves as a suburban rural living area for individuals employed in the metropolitan area and also continues to serve the surrounding rural agricultural community.

The City has a Mayor-Council-Administrator form of government. There are five members of the City Council; the Mayor and Council Members are elected on an at-large ballot to serve a four-year term on a staggered basis.

The City provides a full range of services including police and fire protection through its combined Public Safety Department, and ambulance services through Johnson County Med-Act. The City also provides municipal electric, water, and wastewater services, street maintenance, and engineering through its Public Works department. Other City of Gardner services include: planning, zoning, and codes enforcement, comprehensive parks and recreational activities and facilities, and general administrative services.

The Governmental Accounting Standards Board has established the criteria to determine the financial reporting entity for a municipal government's financial report. This criterion is used to examine the relationship of the City to other associated but legally separate entities to determine if their inclusion in this report would be necessary to fairly present the financial position of the City. This criterion generally has to do with the financial

benefit or burden and levels of influence over the activities of these associated, but legally separate, entities.

Using said criterion, it was determined that the City has both a blended component unit and a discretely presented component unit. The blended component unit - the Public Building Commission (PBC) - although a legally separate entity, is, in substance, part of the City's operations. The discretely presented component unit is the Airport Association, which operates the municipal airport.

### **Economic Condition and Outlook**

In the past decade, Gardner has been recognized as having the highest percentage of growth among Kansas communities with a population greater than 10,000. With its location on Interstate 35, and on a major rail transit route, and adjacent to New Century AirCenter, a premier multi-modal business park, the City enjoys a unique combination of interstate, air and rail infrastructure.

In 2006, the City annexed an additional 252 acres into its corporate limits. Currently, Gardner is approximately 9.79 square miles in size. The City installed 13.3 miles of new streets, 7.9 miles of new wastewater lines, 3.6 miles of new storm sewer, 8.0 miles of water lines, 4.0 miles of new overhead electric distribution and transmission lines, and 72 new street lights. There are currently 16 subdivisions with housing construction activity. The number of building permits for single-family home construction decreased from 399 in 2005 to 228 in 2006, and multi-family home construction decreased from 128 in 2005 to 117 in 2006.

The City welcomed nearly 900 new residents to the community or about three new neighbors a day on average. There are approximately 16,200 people who now call Gardner home. This is a 60% increase from just five years ago, where the number of Gardner citizens was about 10,122.

As expected, the City experienced significant commercial growth in 2006. Walgreen's opened in September and the 159,000 sq. ft. Wal-Mart Super Center opened its doors in October. Little Peoples Daycare is also being constructed. New Century Business Park continued to develop with the addition of multiple new dining options including: Domino's Pizza, Bob and Dee's Family Restaurant, Austin's Bar and Grill, Taco Via, and Wheat State Pizza. Patriots Bank, Central National Bank, and Solutions Bank opened branches in Gardner as well. The City of Gardner now has four athletic clubs to help keep its citizens physically fit.

In October, Burlington Northern Santa Fe Railroad announced that it had chosen The Allen Group to develop a new logistics park near Gardner, Kansas. The Allen Group is a nationally recognized industrial development company and will develop what will become the third logistics park on BNSF's network. The Allen Group will work with local and state governments on a variety of aspects related to this project.

A new Middle School is being built in the rapidly expanding northwest area of town. This school will house grades five through eight.

All of this growth has contributed to an increase in the City's assessed valuation of 99% in the last five years alone. Wealth levels and housing values exceed state averages, and Johnson County's May 2006 unemployment rate at 4.3% was slightly below the state's rate of 4.5%. Additionally, in 2006, the City's sales tax collections increased. A ½ cent sales tax increase was approved by more than 70% of voters on June 7, 2005, to fund the development of a new community park and the expansion of the City swimming pool. In 2006, the park sales tax increment totaled \$878,877. Without the additional ½ cent park sales tax increment, the City's sales taxes increased over 12% from 2005.

All of these factors, combined with quality schools, affordable housing, sound management and governing body leadership, and a strong community spirit point to a continued strong economic outlook for years to come.

### **Major Initiatives**

#### ***2006 Initiatives***

Planning and design for the approximate 5,000 square foot new Public Safety Station No. 2 began in 2006. The facility will house a fire pumper purchased in 2005 and a new Bronto 100 foot rescue ladder truck that will be delivered early in 2007. The City also purchased land for the third public safety station in the northwest area of town, near Celebration Park and the new Middle School. The new position of a Fire Captain in 2006 is one of the ways the City is preparing its Public Safety staff to meet the needs of the growing City.

Work on the new aquatic facility began in the spring of 2006 with the construction of a lazy river, multiple water slides, floatable walk, spray grounds, climbing net, zero depth entry, and a toddler pool. The project has continued on schedule and is anticipated to open Memorial Day weekend 2007. Construction also began on Celebration Park, named in honor of the City's corresponding Sesquicentennial Celebration. The 83 acre complex will include baseball, softball, football, and soccer fields, as well as walking paths, a lake, shelters, and bathroom facilities. The City also purchased land for a new neighborhood park in the Quail Meadow subdivision. The park will be adjacent to the future Kill Creek Trail that has been incorporated into the Johnson County Trails Master Plan. Additionally, Gardner received its fourth Tree City USA Award from the National Arbor Day Foundation.

In 2006, the City spent over \$300,000 on improvements to existing residential streets. The City worked with the Kansas Department of Transportation to add left turn signals in all directions at Main Street and Moonlight Road, the City's busiest intersection. In order to better maintain the 127 lane miles of roadway, the Streets Division purchased an asphalt roller and an Elgin Eagle mechanical broom sweeper. The roller is essential for providing smooth and durable pavement repair, and the sweeper keeps the streets free of debris and gravel.

The Hillsdale Water Treatment Plant was expanded to double the total capacity from producing 2 million gallons a day to 4 million gallons a day. A new elevated water storage tower is being constructed in the northwest area of town. It stands approximately 200 feet and has the capacity of 1 million gallons. The tower will increase storage capacity, as well as improve water pressure for City residents.

A new wastewater lift station is being built to replace the current north lift station. The current station is at capacity and cannot meet future demand. The project is expected to be completed in April of 2007. The east wastewater lift station was completed and went online in 2006.

The City completed the installation of Electric Substation No. 3 in 2006. This station and transmission lines serve the rapidly expanding northwest area of Gardner. The aging Manor subdivision circuit was rebuilt by replacing overhead lines.

Sixteen new positions were added in 2006 to better serve Gardner's citizens including: an additional public safety clerk, four public safety officers, the aforementioned fire captain, two maintenance workers, two electric service technicians, a water plant operator, two engineering technicians, an electric lineman, a planner, and a staff engineer.

The City released a new website in February 2006. There are links for citizens to pay their utility bill online, register for parks and recreation programs, as well as apply for employment opportunities with the City. Also available on the website are important City documents, current events, and bid requests.

The City implemented a budget billing program to its residential class customers. This program allows customers to pay the same amount for their utility bills every month based on a twelve month rolling average.

### ***Future/Planned Initiatives***

In 2007, four additional public safety personnel will be added to increase the City of Gardner's coverage. A new outdoor warning siren will be installed in the northwest part of town. A stoplight will be installed on Main Street at Public Safety Station No. 1 to both ease traffic congestion and enhance safety when moving emergency equipment in and out of the station. The City will enter into a lease-purchase agreement for the aforementioned Bronto 100 foot rescue ladder truck. It will aid in the operation of rescue and firefighting on structures with large span roofs, such as schools, Wal-Mart, Trade Net, and other buildings now being constructed in Gardner.

The City is seeking land to purchase for the new Parks/Public Works Operations Facility, which may be purchased in 2007 or 2008. This area will house parks and public works equipment and provide a base for operations. In 2008, the City will ease traffic congestion at the Santa Fe and Moonlight Road intersection by relocating Santa Fe Street to the south. Lincoln Lane will be extended west of Moonlight Road to allow additional access to the Moonlight Plaza shopping center. Construction for widening Moonlight Road to four lanes will be bid late in 2007, to be completed in 2009.

The City has \$350,000 budgeted for its existing street improvement and development program for 2007. The City will replace over \$500,000 worth of aging waterlines, as part of the waterline replacement program. The City's electric division plans to rehabilitate the hospital circuit and finalize the replacement of the lines northwest of town along Waverly road.

The former Bull Creek Wastewater Treatment Plant is being converted into a new lift station to enable all wastewater to be most efficiently treated at the City's award winning Kill Creek Wastewater Treatment Plant. The project is expected to be completed in October 2007.

### ***Financial Planning***

In 2006, the City's electric, water and wastewater funds continued to be self-sufficient and paid a "franchise" fee to the General Fund. This approximates the franchise fees that non-government utilities pay to the City for operating within the limits. The utility funds paid slightly less than 10% of revenues. In 2007, the water and wastewater funds will no longer pay the franchise fee; keeping in line with our competitors serving the surrounding area. However, each fund is paying a small amount to cover human resource and accounting services. The electric utility continues to pay a franchise fee equal to 7% of revenues and will decrease to 5% in 2008. Five percent is equal to the franchise fee paid by Kansas City Power and Light.

The City continues to assess its utility rates in relation to current and future costs. Electric rates were increased an average of 5% for all rate classes. The City also reviewed the rates for water and wastewater services in 2006. Water rates increased by 3% for both service charge and consumption charge. This increase is offset by a 5% rate reduction in 2005, so the 2006 cost is still less than the 2004 rate. Wastewater increased by 5% for both usage and service charges.

With the rapid growth Gardner is experiencing, building infrastructure for the City's utility systems continue to be a major focus. The City assesses impact fees on new development in keeping with the idea of having new growth pay its own way.

The City continues to conduct stormwater infiltration studies to identify areas where stormwater is infiltrating into the wastewater system. Reduction in infiltration reduces the City's capacity needs for wastewater treatment and associated costs.

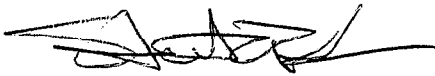
The City will conduct a study in 2007 on the viability of the electric system to determine how the system will continue to function given the change in the electric market. In 2006, a separate master plan study was started to indicate where future improvements would be needed and the cost of those improvements. This study should be completed in 2007.

The City will continue to update its costs studies on a biannual basis. In addition, the City will continue to perform overall needs assessments on future facilities and rates.

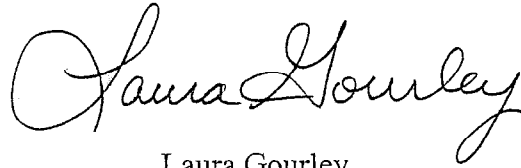
Acknowledgements

The preparation of this report could not have been accomplished without the support and cooperation of the Governing Body, Administration, other City departments, external auditors, and the efficient, dedicated efforts of the entire staff of the Accounting Department. In addition, Tom Riederer of the Southwest Johnson County Economic Development Corporation significantly contributed to the Statistical section of this document. Finance Staff also thanks Administrative Assistant for Administration, Janet Hackney, for providing information on the City's many accomplishments in 2006. Credit must be given to the Governing Body for their unfailing support for maintaining the highest standards of professionalism in the management of Gardner's finances.

Sincerely,



Stewart Fairburn  
City Administrator

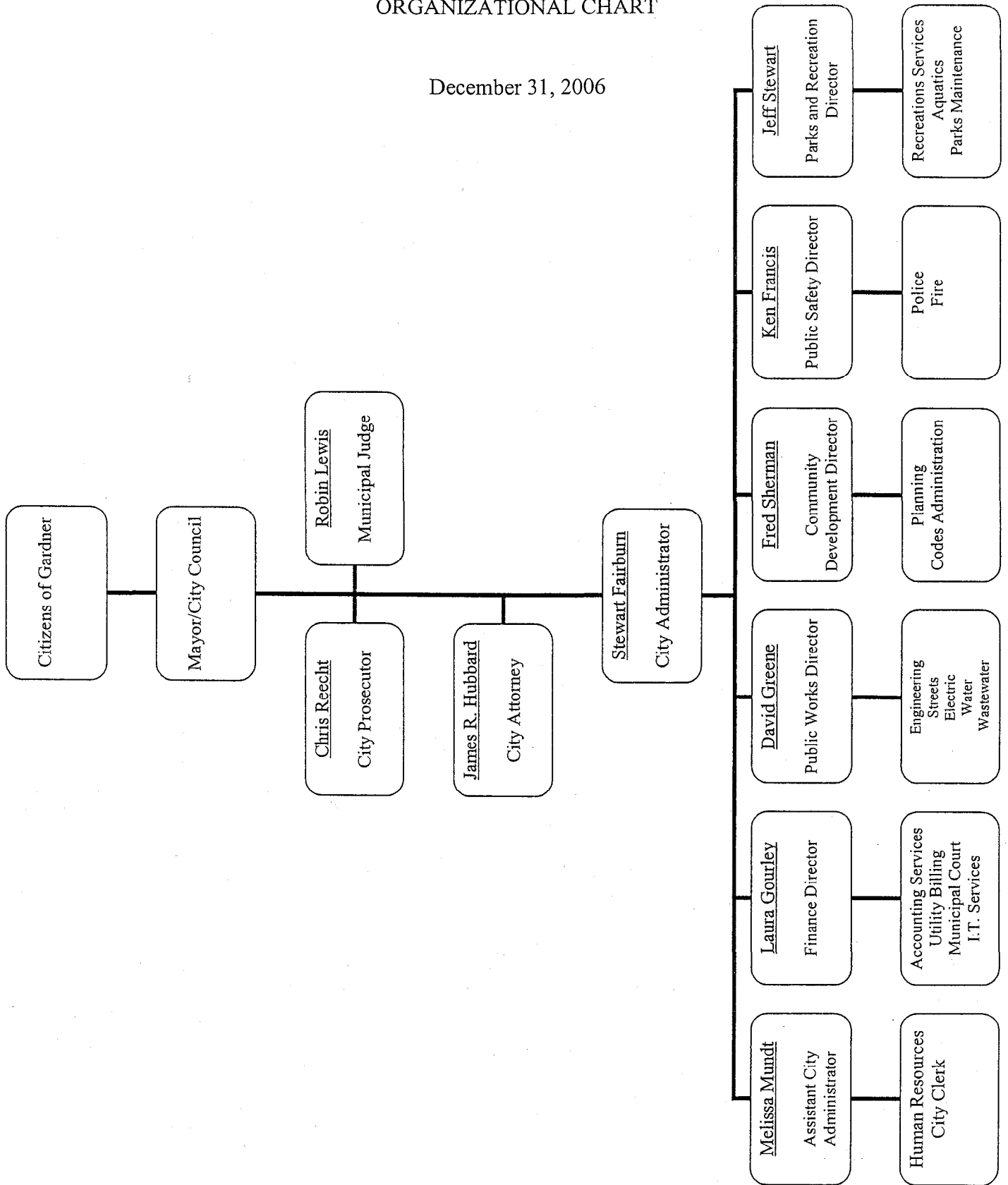


Laura Gourley  
Finance Director

CITY OF GARDNER, KANSAS

ORGANIZATIONAL CHART

December 31, 2006



City of Gardner  
List of Elected and Appointed Officials  
December 31, 2006

Elected Officials

		<u>Term of Office</u>
Mayor	Carol Lehman	2005-2009
Council President	David Drovetta	2003-2007
Council Vice President	Mary Peters	2003-2007
Councilmember	Brad Weisenburger	2003-2007
Councilmember	Mark Raney	2005-2009
Councilmember	Tom Breen	2006-2009

Appointed Officials

City Administrator	Stewart Fairburn
Assistant City Administrator	Melissa Mundt
Municipal Judge	Robin Lewis
City Prosecutor	Chris Reeht
City Attorney	James R. Hubbard
Finance Director	Laura Gourley
Public Works Director	David Greene
Community Development Director	Fred Sherman
Public Safety Director	Ken Francis
Parks and Recreation Director	Jeff Stewart

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gardner  
Kansas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director



# Berberich Trahan & Co.

Certified Public Accountants

3630 SW Burlingame Road  
Topeka, KS 66611-2050

Telephone 785 234 3427  
Toll Free 800 530 5526  
Facsimile 785 233 1768  
[www.cpakansas.com](http://www.cpakansas.com)

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, City Administrator  
and City Council  
City of Gardner, Kansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and applicable provisions of the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. The financial statements of the Airport Association were not audited in accordance with *Government Auditing Standards*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Kansas, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the street improvement fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2007, on our consideration of the City'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* and should be considered in assessing the results of our audit.

**RSM McGladrey Network**

An Independently Owned Member

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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. However, 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's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Berberich Trahan & Co., P.A.*

June 20, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Gardner (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-viii of this report.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of 2006 by \$70,147,661 (*net assets*). Of this amount, \$12,010,628 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$5,742,215 from the prior year.
- As of the close of 2006, the City's governmental funds reported combined ending fund balances of \$10,381,970, an increase of \$4,394,102 from the prior year. The City experienced an increase of over \$3.7 million in governmental assets during 2006. The significant increase to the governmental assets is due to the \$7,150,000 in certificates of participation reported in the restricted deposits and investments of the City.
- At the end of 2006, the fund balance for the General Fund was \$4,127,464, or 56% of General Fund expenditures.
- In 2006, the City issued \$7,150,000 in general obligation improvement bonds for the construction of an electric substation and \$3,545,000 in general obligation improvement bonds for the construction of a new aquatics center. The City also issued \$7,150,000 in certificates of participation for the construction of a new park complex. The park and pool projects are being funded by a voter approved ½ cent sales tax increase. The City obtained a \$4,318,315 state revolving loan from the Kansas Department of Health and Environment in order to convert the Bull Creek Wastewater Treatment Plant into a lift station. The City was also approved for two state revolving loans from the Kansas Department of Transportation, one in the amount of \$692,706 for the design of the Main and Moonlight Project and another in the amount of \$561,895 for the street improvements made to 167<sup>th</sup> Street. With the City's additional financing for its many infrastructure construction projects, the City's long-term liabilities increased \$21.6 million from the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City's financial report consists of the following parts:

- Management's discussion and analysis;
- The basic financial statements, which include the government-wide and the fund financial statements, along with the notes to the basic financial statements;
- Combining and individual statements and schedules for nonmajor governmental funds
- Statistical section

The basic financial statements of the City include the government-wide financial statements and the fund financial statements. The notes to the financial statements follow the basic financial statements and are essential for the reader's understanding of the financial statements. Other supplementary information, including the statistical section, is also included at the end of this report to provide additional information for the reader.

### ***Government-wide Financial Statements***

The government-wide financial statements present the results of the City's operations using the accrual basis of accounting, the basis of accounting used by private-sector businesses. These statements focus on the long-term financial picture of the City as a whole.

The *Statement of Net Assets* reports all of the City's assets and liabilities. Net assets, the difference between assets and liabilities, are an important measure of the City's overall financial health. Over time, the increases and decreases in net assets can be monitored to determine whether the City's financial position is improving or deteriorating.

The *Statement of Activities* shows how the net assets have changed during the fiscal year. The unique feature of this statement is how it shows the revenues and expenses related to specific programs and how much of the programs were supported by the general taxes of the City. Since this statement is prepared on the accrual basis of accounting, all revenues and expenses are included, regardless of when cash is actually received.

Both statements show the operations of the City broken down by governmental activities and business-type activities. Governmental activities are the operations of the City generally supported by taxes, such as public works, public safety, parks and recreation, and general administration. Business-type activities are operations of the City that are intended to recover all or a significant portion of their costs through user fees and charges. These consist of the three utilities the City operates: electric, water, and wastewater.

### ***Fund Financial Statements***

The City uses three types of funds to manage its resources: Governmental Funds, Proprietary Funds, and Fiduciary Funds. A fund is a fiscal entity with a set of self-balancing accounts recording financial resources, together with all related liabilities and equity, and the changes therein. These accounting entities are separated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions, or limitations.

*Governmental Fund* financial statements are prepared on the modified accrual basis. Under the modified accrual basis, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term debt and other similar items, which are recorded when due. The focus, therefore, is on the short-term financial picture of the operations reported rather than the City as a whole. Most of the City's basic operations are reported in the Governmental Fund financial statements. The information reported in these statements can be compared to the governmental activities information in the government-wide statements. The reconciliation at the end of the fund financial statements details the relationship between the two types of financial statements.

The City maintains 38 individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, Celebration Park fund, Kill Creek Sewer fund, and Street Improvement fund, all of which are considered to be major funds. Data from the other 34 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

*Proprietary Funds* are used by the City to account for activities that operate similar to commercial enterprises found in the private sector. Funds that charge fees for services provided to outside customers including other local governments are called Enterprise Funds. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Funds that charge fees for services provided to departments within the reporting government are known as Internal Service Funds. Proprietary Funds use the accrual basis of accounting, thus the only reconciling items needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements relate to the elimination of internal service fund activity.

The City has three enterprise funds: Electric Fund, Water Fund, and the Wastewater Fund. The City has four Internal Service Funds: Risk Management Fund, Information Technology Services Fund, Building Maintenance Fund, and the Utility Billing Services Fund. The Electric Fund, Water Fund, and Wastewater Fund are the only funds being considered major funds for presentation purposes.

*Fiduciary Funds* are used by the City to account for resources held by the City for the benefit of a third party. Because the resources of these funds are not available for the City's operations, they are not presented in the government-wide financial statements.

### ***Notes to the Financial Statements***

The notes to the financial statements are an integral part of the basic financial statements because they contain valuable additional information necessary for gaining a complete understanding of the City's financial statements.

### ***Other Information***

In addition to the financial statements and the notes described above, supplementary information regarding non-major governmental funds has been included to give the reader further information.