CITY OF GRINNELL
Grinnell, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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CITY OF GRINNELL

Officials

(Before January 2005)

Gordon Canfield	Mayor	January 2006
James White	Council Member	January 2006
Peggy Elliot	Council Member	January 2006
Steve Witt	Council Member	January 2004
Shannon McNaul	Council Member	January 2006
Larry Wilson	Council Member	January 2004
Byron Worley	Council Member	January 2004
Russell Behrends	City Administrator	Indefinite
Cassandra Hage	City Clerk/Treasurer Administrator	Indefinite
William Sueppel	City Attorney	Indefinite

(After January 2005)

Gordon Canfield	Mayor	January 2006
James White	Council Member	January 2006
Peggy Elliot	Council Member	January 2006
Steve Witt	Council Member	January 2008
Shannon McNaul	Council Member	January 2006
Larry Wilson	Council Member	January 2008
Byron Worley	Council Member	January 2008
Russell Behrends	City Administrator	Indefinite
Cassandra Hage	City Clerk/Treasurer Administrator	Indefinite
William Sueppel	City Attorney	Indefinite

Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Grinnell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the City of Grinnell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grinnell's basic financial statements. The financial statements for the three years ending June 30, 2005 were audited by other auditors. Unqualified opinions were expressed. Other 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. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

September 30, 2005

Gardner Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grinnell has prepared the 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This is the second year the City has reported information in compliance with updated standards.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the Government-wide 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.

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

Other Supplementary Information provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's balance for governmental activities increased approximately $3,000,000 from a year ago. The analysis that follows focuses on the cash balances for governmental activities.

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

	Year Ended June 30,	
	2005	2004
Receipts		
Program Receipts		
Charges for Service	$246	$16
Operating Grants	1,259	223
Capital Grants	30	0
General Receipts		
TIF	496	303
Property Tax	3,076	2,696
Grants and Contributions not restricted to specific purposes	1,189	1,079
Bonds Proceeds	3,725	0
Other General Receipts	230	995
Transfers, Net	421	341
Total Receipts and Transfers	10,672	5,653
Disbursements		
Public Safety	1,633	1,522
Public Works	676	875
Health and Social Services	0	2
Culture and Recreation	768	838
Community and Economic Development	668	794
General Government	905	946
Debt Service	949	653
Capital projects	2,065	793
Total Disbursements	7,664	6,423
(Increase) Decrease in Cash Basis Net Assets	3,008	(770)
Cash Basis Net Assets Beginning of Year	4,246	5,016
Cash Basis Net Assets End of Year	$7,254	$4,246

The City's total receipts for governmental activities increased by 89% or $5,019,000. The total cost of all programs and services increased by approximately 19% or $1,241,000, with no new programs added this year.

The cost of all governmental activities this year was $7,664,141 compared to $6,423,375 last year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2005	2004
Receipts and Transfers		
Program Receipts		
Charges for Service		
Water	$868	$778
Sewer	1,254	1,275
Garbage	667	618
Other	479	0
	3,268	2,671
General Receipts		
Bonds Proceeds	200	0
Other General Receipts	94	589
Total Receipts and Transfers	3,562	3,260
Disbursements and Transfers		
Water	733	721
Sewer	665	510
Garbage	760	762
Transfers	421	342
Other	425	940
Total Disbursements and Transfers	3,004	3,275
Increase (Decrease) in Cash Balance	558	(15)
Cash Basis Net Assets - Beginning of Year	2,391	2,406
Cash Basis Net Assets - End of Year	$2,949	$2,391

Total business type activities receipts for the fiscal year were $3,562,445 compared to $3,482,033 last year. The cash balance increased by $557,941 from the prior year. Total disbursements and transfers for the fiscal year decreased by 8% to a total of $3,004,504.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grinnell completed the year, its governmental funds reported a combined fund balance of $7,253,971, an increase of $3,007,801 from last year's total of $4,246,170. The following are changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by $34,317 from the prior year to $614,229 during the fiscal year.
- The Road Use Tax Fund cash balance increased by $236,420 to $789,112 during the fiscal year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS (Continued)

- The Employee Benefits Fund cash balance increased by $69,736 to $187,839 during the fiscal year.
- The Equipment Fund cash balance decreased by $397,280 to $1,016,106 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $24,414 to $407,462, due primarily to an increase in the sale of water.
- The Sewer Fund cash balance increased by $404,146 to $1,741,333.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately $6,725,000 in bonds and other long-term debt, compared to $3,795,000 last year as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30,	
	2005	2004
General Obligation Notes	$3,500	$290
Revenue Notes	3,225	3,505
Total	$6,725	$3,795

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. 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 $3,500,000 is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Grinnell elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices.

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 Cassandra Hage, City Clerk, Grinnell, Iowa.

Basic Financial Statements

CITY OF GRINNELL

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the Year Ended June 30, 2005

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs				
Governmental Activities				
Public Safety	$1,632,680	$44,462	$128,661	$ 0
Public Works	676,135	30,240	62,870	0
Culture & Recreation	767,961	148,027	839,147	0
Community & Economic Development	667,509	847	227,818	29,882
General Government	904,880	17,760	0	0
Debt Service	949,402	0	0	0
Capital Projects	2,065,574	4,379	539	0
Total Governmental Activities	7,664,141	245,715	1,259,035	29,882
Business Type Activities				
Water	732,625	868,527	0	0
Sewer Rental	664,889	1,254,051	0	0
Solid Waste	760,093	666,569	0	0
Building & Housing	111,233	287,096	0	0
Other	314,678	192,185	0	0
Total Business Type Activities	2,583,518	3,268,428	0	0
Total	$10,247,659	$3,514,143	$1,259,035	$29,882
General Receipts				
Property Tax Levied For				
General Purposes				
Tax Increment Financing				
Debt Service				
Hotel Motel Tax				
Grants & Contributions Not Restricted to Specific Purpose				
Unrestricted Interest on Investments				
Bond Proceeds				
Miscellaneous				
Proceeds From Sale of Assets				
Transfers				
Total General Receipts & Transfers				
Change in Cash Basis Net Assets				
Cash Basis Net Assets Beginning of Year				
Cash Basis Net Assets End of Year				
Cash Basis Net Assets				
Restricted				
Streets				
Urban Renewal Purposes				
Debt Service				
Other Purposes				
Unrestricted				
Total Cash Basis Net Assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
$(1,459,557)	$0	$(1,459,557)
(583,025)	0	(583,025)
219,213	0	219,213
(408,962)	0	(408,962)
(887,120)	0	(887,120)
(949,402)	0	(949,402)
(2,060,656)	0	(2,060,656)
(6,129,509)	0	(6,129,509)
0	135,902	135,902
0	589,162	589,162
0	(93,524)	(93,524)
0	175,863	175,863
0	(122,493)	(122,493)
0	684,910	684,910
$(6,129,509)	$684,910	(5,444,599)
$2,626,026	$0	2,626,026
495,897	0	495,897
450,445	0	450,445
55,404	0	55,404
1,189,427	0	1,189,427
98,163	94,433	192,596
3,724,965	0	3,724,965
39,160	199,584	238,744
36,837	0	36,837
420,986	(420,986)	0
9,137,310	(126,969)	9,010,341
3,007,801	557,941	3,565,742
4,246,170	2,390,669	6,636,839
$7,253,971	$2,948,610	$10,202,581
$789,112	$ 0	$789,112
140,886	0	140,886
(161,640)	0	(161,640)
3,927,417	0	3,927,417
2,558,196	2,948,610	5,506,806
$7,253,971	$2,948,610	$10,202,581

CITY OF GRINNELL

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

		Special Revenue	
	General	Road Use Tax	Employee Benefits
Receipts			
Property Tax	$1,907,395	$ 0	$712,916
Tax Increment Financing Collections	0	0	0
Other City Tax	2,573	0	1,964
Licenses & Permits	19,090	0	0
Use of Money & Property	55,100	0	0
Intergovernmental	296,180	757,043	0
Charges for Service	254,983	0	0
Special Assessments	0	0	0
Miscellaneous	107,293	50,000	6,565
Total Receipts	2,642,614	807,043	721,445
Disbursements			
Operating			
Public Safety	1,233,821	0	393,084
Public Works	135,219	447,473	93,443
Health & Social Services	0	0	0
Culture & Recreation	668,814	0	90,732
Community & Economic Development	262,124	0	682
General Government	344,715	0	84,768
Debt Service	0	0	0
Capital Projects	0	0	0
Total Disbursements	2,644,693	447,473	662,709
Excess (Deficiency) of Receipts Over (Under) Disbursements	(2,079)	359,570	58,736
Other Financing Sources (Uses):			
Note Proceeds	0	0	0
Sale of Capital Assets	36,837	0	0
Operating Transfers In	50,000	0	11,000
Operating Transfers Out	(119,075)	(123,150)	0
	(32,238)	(123,150)	11,000
Net Change in Cash Balances	(34,317)	236,420	69,736
Cash Balances Beginning of Year	648,546	552,692	118,103
Cash Balances End of Year	$614,229	$789,112	$187,839
Cash Basis Fund Balances			
Reserved :			
Debt Service	$ 0	$ 0	$ 0
Cemetery Perpetual Care	0	0	0
Unreserved:			
General Fund	614,229	0	0
Special Revenue Funds	0	789,112	187,839
Capital Projects Funds	0	0	0
Total Cash Basis Fund Balances	$614,229	$789,112	$187,839

See Notes to Financial Statement

Exhibit B

Special Revenue Equipment	Debt Service	Capital Projects	Other Non-Major Governmental Funds	Total
$ 0	$450,445	$ 0	$ 0	$3,070,756
0	0	0	495,897	495,897
0	1,182	0	55,404	61,123
0	0	0	0	19,090
1,206	5,890	43,486	5,228	110,910
0	0	539	0	1,053,762
0	0	2,246	847	258,076
0	0	2,133	0	2,133
45,000	0	664,724	543,825	1,417,407
46,206	457,517	713,128	1,101,201	6,489,154
0	0	0	5,775	1,632,680
0	0	0	0	676,135
0	0	0	0	0
0	0	0	8,415	767,961
0	0	0	404,703	667,509
0	0	0	475,397	904,880
0	949,402	0	0	949,402
865,404	0	1,200,170	0	2,065,574
865,404	949,402	1,200,170	894,290	7,664,141
(819,198)	(491,885)	(487,042)	206,911	(1,174,987)
0	0	3,724,965	0	3,724,965
0	0	0	0	36,837
421,918	185,493	0	0	668,411
0	0	(5,200)	0	(247,425)
421,918	185,493	3,719,765	0	4,182,788
(397,280)	(306,392)	3,232,723	206,911	3,007,801
1,413,386	144,752	242,514	1,126,177	4,246,170
$1,016,106	$(161,640)	$3,475,237	$1,333,088	$7,253,971
$ 0	$(161,640)	$ 0	$ 0	$(161,640)
0	0	0	452,180	452,180
0	0	0	0	614,229
1,016,106	0	0	880,908	2,873,965
0	0	3,475,237	0	3,475,237
$1,016,106	$(161,640)	$3,475,237	$1,333,088	$7,253,971

Exhibit C

CITY OF GRINNELL

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES IN FUND BALANCES – ENTERPRISE FUNDS
As of and for the Year Ended June 30, 2005

	Water	Sewer	Solid Waste	Nonmajor Enterprise Funds	Total
Operating Receipts					
Use of Money & Property	$7,012	$16,109	$2,067	$69,245	$94,433
Charges for Service	868,527	1,254,051	666,569	479,281	3,268,428
Miscellaneous	0	78,436	115,813	5,335	199,584
Total Operating Receipts	875,539	1,348,596	784,449	553,861	3,562,445
Operating Disbursements					
Business Type Activities	732,625	664,889	760,093	425,911	2,583,518
Total Operating Disbursements	732,625	664,889	760,093	425,911	2,583,518
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	142,914	683,707	24,356	127,950	978,927
Operating Transfers In (Out)	(118,500)	(279,561)	(99,000)	76,075	(420,986)
Net Change in Cash Balances	24,414	404,146	(74,644)	204,025	557,941
Cash Balances Beginning of Year	383,048	1,337,187	120,530	549,904	2,390,669
Cash Balances End of Year	$407,462	$1,741,333	$45,886	$753,929	$2,948,610
Cash Basis Fund Balances					
Reserved for Debt Service	$ 0	$390,675	$ 0	$ 0	$ 0
Unreserved	407,462	1,350,658	45,886	753,929	2,948,610
Total Cash Basis Fund Balances	$407,462	$1,741,333	$45,886	$753,929	$2,948,610

See Notes to Financial Statements

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The City of Grinnell is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Grinnell 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 of Grinnell 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: Poweshiek County Assessor's Conference Board, Poweshiek County Emergency Management Commission, and the Poweshiek County Joint E911 Service Board.

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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 this fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue -

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefit Fund is used to account for payroll taxes.

The Equipment Fund is used to build reserves for major equipment purchases.

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

The Capital Projects Fund is used to account for the acquisition and construction of capital improvements.

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 wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation of the City's residential and commercial waste collection, composting and recycling.

C. Measurement Focus and Basis of Accounting

The City of Grinnell 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Culture & Recreation and the Capital Projects functions.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $3,527,396 pursuant to rule 2a-7 under The Investment Company Act of 1940.

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) in 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.

Credit risk: The City's investment in the Iowa Public Agency Investment Trust in unrated.

Note 3: Bonds and Notes Payable

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

Year Ending	General Obligation Bonds		Revenue Notes		Totals	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2006	$150,000	$154,927	$285,000	$105,675	$435,000	$260,602
2007	185,000	106,060	290,000	97,695	475,000	203,755
2008	190,000	101,712	300,000	89,575	490,000	191,287
2009	295,000	96,868	300,000	80,875	595,000	177,743
2010	400,000	88,755	315,000	72,175	715,000	160,930
2011	425,000	76,755	325,000	62,095	750,000	138,850
2012	440,000	63,367	325,000	51,207	765,000	114,574
2013	455,000	48,848	350,000	39,995	805,000	88,843
2014	475,000	33,605	360,000	27,570	835,000	61,175
2015	485,000	17,217	375,000	14,250	860,000	31,467
Total	$3,500,000	$788,114	$3,225,000	$641,112	$6,725,000	$1,429,226

On May 1, 2003, the City issued $3,775,000 of Sewer Revenue Refunding Capital Loan Notes. The notes are not obligations of the City and are payable solely and only out of the future net revenues of the municipal sewer utility, a sufficient portion of which has been ordered set aside and pledged for that purpose. The notes are not payable in any manner by taxation and under no circumstances shall the City be in any manner liable by reason of failure of said revenue to be sufficient for the payment of the Notes and the interest thereon.

The Note resolution requires Sinking, Reserve and Improvement Funds be established for debt service and extraordinary maintenance expenses. Interest payments are semiannual commencing on December 1, 2003. Principal payments are semiannual commencing on June 1, 2004, continuing through June 1, 2015.

On January 1, 2005, the City issued $3,500,000 of General Obligation Bonds. The bonds were issued for the purpose of construction of street, sewer and storm utility improvements in its business district. Interest payments are semiannual commencing on December 1, 2005. Principal payments are annual commencing on June 1, 2006, principal and interest payments continue through June 1, 2015.

The City is in compliance with the provisions of the Note and Bond Resolutions.

Note 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, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07% respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were $98,581, $97,623, and $93,597, respectively, equal to the required contribution for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 – 104th Street, Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2005, 2004, and 2003 were $198,477, $157,430, and $124,594, respectively, which exceeds the required minimum contribution for each year.

Note 5: Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

Note 5: Compensated Absences (Continued)

Type of Benefit	Amount
Vacation	$ 84,373
Compensated Absences	7,920
Total	$92,293

This liability has been computed based on rates of pay in effect at June 30, 2005.

Note 6: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer To	Transfer From	Amount
General	Enterprise:	
	Community Center	$39,000
	Water	5,500
	Sewer	5,500
		50,000
Special Revenue:		
Employee Benefits	General	11,000
Equipment	General	30,000
	Special Revenue:	
	Road Use Tax	123,150
	Capital Projects	5,200
	Enterprise:	
	Cemetery	2,000
	Water	100,000
	Sewer	75,568
	Solid Waste	86,000
		421,918
Debt Service	Enterprise:	
	Sewer	185,493
Enterprise:		
Community Center	General	78,075
	Enterprise:	
	Water	13,000
	Sewer	13,000
	Solid Waste	13,000
		117,075
Total		$785,486

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

Note 7: Related Party Transactions

The City had business transactions between the City and City officials totaling $112 during the year ended June 30, 2005.

Note 8: Industrial Development Revenue Bonds

The City has issued a total of $14,390,000 of Industrial Development Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa, of which $9.7 million is outstanding at June 30, 2005. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

Note 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 490 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 a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total 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's annual contributions to the Pool for the year ended June 30, 2005 were $124,996.

Note 9: Risk Management (Continued)

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 $250,000 per claim. Claims exceeding $250,000 are reinsured in an amount not to exceed $1,750,000 per claim and $5,000,000 in aggregate per year. For members requiring specific coverage from $2,000,000 to $10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to $50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund for their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from the other insurers for the coverage associated with airport liability, volunteer coverage, and workers' compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10: Budget Over Expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the Culture and Recreation and the Capital Projects functions exceeded the amounts budgeted.

Required Supplementary Information

CITY OF GRINNELL

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS & CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS – REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property Tax	$3,070,756	$0	$3,070,756
Tax Increment Financing	495,897	0	495,897
Other City Tax	61,123	0	61,123
Licenses & Permits	19,090	0	19,090
Use of Money & Property	110,910	94,433	205,343
Intergovernmental	1,053,762	0	1,053,762
Charges for Service	258,076	3,268,428	3,526,504
Special Assessments	2,133	0	2,133
Miscellaneous	1,417,407	199,584	1,616,991
Total Receipts	6,489,154	3,562,445	10,051,599
Disbursements			
Public Safety	1,632,680	0	1,632,680
Public Works	676,135	0	676,135
Culture & Recreation	767,961	0	767,961
Community & Economic Development	667,509	0	667,509
General Government	904,880	0	904,880
Debt Service	949,402	0	949,402
Capital Projects	2,065,574	0	2,065,574
Business Type Activities	0	2,583,518	2,583,518
Total Disbursements	7,664,141	2,583,518	10,247,659
Excess of Receipts Over Disbursements	(1,174,987)	978,927	(196,060)
Other Financing Sources (Uses) Net	4,182,788	(420,986)	3,761,802
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	3,007,801	557,941	3,565,742
Balances Beginning of Year	4,246,170	2,390,669	6,636,839
Balances End of Year	$7,253,971	$2,948,610	$10,202,581

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Net
Original	Final	Variance
$2,959,331	$2,966,331	$104,425
514,585	514,585	(18,688)
148,347	155,347	(94,224)
10,635	10,635	8,455
75,550	79,550	125,793
2,209,238	2,209,238	(1,155,476)
4,026,206	4,026,206	(499,702)
6,150	6,150	(4,017)
879,920	879,920	737,071
10,829,962	10,847,962	(796,363)
1,659,980	1,699,980	67,300
887,988	887,988	211,853
732,444	744,444	(23,517)
1,514,807	1,514,807	847,298
964,090	964,090	59,210
1,026,363	1,026,363	76,961
1,737,636	1,537,636	(527,938)
3,109,652	3,109,652	526,134
11,632,960	11,484,960	1,237,301
(802,998)	(636,998)	440,938
251,750	3,751,750	10,052
(551,248)	3,114,752	450,990
7,422,084	11,234,062	(4,597,223)
$6,870,836	$14,348,814	$(4,146,233)

City of Grinnell

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by $148,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Culture & Recreation and Capital Projects functions.

Other Supplementary Information

CITY OF GRINNELL

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2005

	Tax Increment Financing	Unemployment Reserve	Pension Reserve	Insurance Deductible	Insurance Reserve	Insurance Escrow
Receipts						
Tax Increment Financing Collections	$495,897	$ 0	$ 0	$993	$ 0	$ 0
Other City Tax	0	0	0	0	0	0
Use of Money & Property	0	0	267	0	0	0
Charges for Service	0	0	0	0	0	0
Miscellaneous	0	0	0	0	479,703	0
Total Receipts	495,897	0	267	993	479,703	0
Disbursements						
Operating:						
Public Safety	0	0	5,775	0	0	0
Culture & Recreation	0	0	0	0	0	0
Community & Economic Development	351,865	0	0	0	0	0
General Government	0	0	0	2,000	473,397	0
Total Disbursements	351,865	0	5,775	2,000	473,397	0
Cash Balances Beginning of Year	(3,146)	35,561	24,717	79,939	210,422	9,482
Excess of Receipts Over Disbursements	144,032	0	(5,508)	(1,007)	6,306	0
Cash Balances End of Year	$140,886	$35,561	$19,209	$78,932	$216,728	$9,482
Cash Basis Fund Balances						
Reserved for Cemetery Perpetual Care	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Unreserved:						
Special Revenue Funds	140,886	35,561	19,209	78,932	216,728	9,482
Total Cash Basis Fund Balances	$140,886	$35,561	$19,209	$78,932	$216,728	$9,482

See Accompanying Independent Auditors' Report

Schedule 1

Hotel Motel Tax	Library	Special Assessments	Cemetery Plantings	Cemetery Trees	Permanent Fund Non-Expendable Trust Cemetery Perpetual Care	Total
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$495,897
55,404	0	0	0	0	0	55,404
165	2,772	1,031	0	0	0	5,228
847	0	0	0	0	0	847
8,835	32,235	0	1,074	160	21,818	543,825
65,251	35,007	1,031	1,074	160	21,818	1,101,201
0	0	0	0	0	0	5,775
657	7,758	0	0	0	0	8,415
52,838	0	0	0	0	0	404,703
0	0	0	0	0	0	475,397
53,495	7,758	0	0	0	0	894,290
50,824	199,153	82,935	5,928	0	430,362	1,126,177
11,756	27,249	1,031	1,074	160	21,818	206,911
$62,580	$226,402	$83,966	$7,002	$160	$452,180	$1,333,088
$ 0	$ 0	$ 0	$ 0	$ 0	$452,180	$452,180
62,580	226,402	83,966	7,002	160	0	880,908
$62,580	$226,402	$83,966	$7,002	$160	$452,180	$1,333,088

CITY OF GRINNELL

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN BALANCES – NONMAJOR PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2005

	GET 12	Building & Housing	Concessions	Airport Enterprise
Operating Receipts				
Use of Money & Property	$ 0	$ 0	$ 0	$ 0
Charges for Service	54,774	287,096	0	82,974
Miscellaneous	795	108	3,260	0
Total Operating Receipts	55,569	287,204	3,260	82,974
Operating Disbursements				
Business Type Activities	32,578	111,233	2,914	65,351
Total Operating Disbursements	32,578	111,233	2,914	65,351
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	22,991	175,971	346	17,623
Operating Transfers In (Out)	0	0	0	0
Net Change in Cash Balances	22,991	175,971	346	17,623
Cash Balances Beginning of Year	1,241	342,214	5,571	5
Cash Balances End of Year	$24,232	$518,185	$5,917	$17,628
Cash Basis Fund Balances				
Reserved for Debt Service	$ 0	$ 0	$ 0	$ 0
Unreserved	24,232	518,185	5,917	17,628
Total Cash Basis Fund Balances	$24,232	$518,185	$5,917	$17,628

See Notes to Financial Statements

See Accompanying Independent Auditors' Report

Schedule 2

Community Center	Cemetery	Total
$50,819	$18,426	$69,245
0	54,437	479,281
1,112	60	5,335
51,931	72,923	553,861
155,226	58,609	425,911
155,226	58,609	425,911
(103,295)	14,314	127,950
78,075	(2,000)	76,075
(25,220)	12,314	204,025
198,597	2,276	549,904
$173,377	$14,590	$753,929
$ 0	$ 0	$ 0
173,377	14,590	753,929
$173,377	$14,590	$753,929

CITY OF GRINNELL

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes and Bonds			
1992 Capital Loan Note	August 3, 1992	4.55-5.60%	$1,205,000
2003 Capital Loan	April 1, 2003	2.125%	395,000
2004 Capital Loan	August 1, 2004	3.25%	250,000
2005 Bonds	January 1, 2005	2.20-3.55%	500,000
Revenue Notes			
2003 Sewer Refunding Capital Loan	May 1, 2003	2.8-3.8%	$3,755,000

See Accompanying Independent Auditors' Report

Schedule 3

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
$100,000	$ 0	$ 100,000	$ 0	$5,600	$ 0
190,000	0	190,000	0	4,037	0
0	250,000	250,000	0	7,426	0
0	3,500,000	0	3,500,000	0	0
290,000	3,750,000	540,000	3,500,000	17,063	0
3,505,000	0	280,000	3,225,000	111,275	0
$3,795,000	$3,750,000	$820,000	$6,725,000	$128,338	$ 0

Schedule 4

CITY OF GRINNELL

Bond and Note Maturities
June 30, 2005

General Obligation Bonds

2005 3,500,000 Issued		
Year Ending June 30,	Interest Rate	Amount
2006	2.20%	$150,000
2007	2.35	185,000
2008	2.55	190,000
2009	2.75	295,000
2010	3.00	400,000
2011	3.15	425,000
2012	3.30	440,000
2013	3.35	455,000
2014	3.45	475,000
2015	3.55	485,000
Total		$3,500,000

Revenue Notes

Sewer Refunding Notes		
Year Ending June 30,	Interest Rate	Amount
2006	2.80%	$285,000
2007	2.80	290,000
2008	2.90	300,000
2009	2.90	300,000
2010	3.20	315,000
2011	3.35	325,000
2012	3.45	325,000
2013	3.55	350,000
2014	3.70	360,000
2015	3.80	375,000
Total		$3,225,000

See Accompanying Independent Auditors' Report

Schedule 5

CITY OF GRINNELL

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
BY FUNCTION – ALL GOVERNMENTAL FUNDS
Year Ending June 30, 2005

Receipts	
Property Tax	$3,070,756
Tax Increment Financing Collections	495,897
Other City Tax	61,123
Licenses & Permits	19,090
Use of Money and Property	110,910
Intergovernmental	1,053,762
Charges for Service	258,076
Special Assessments	2,133
Miscellaneous	1,417,407
Total	$6,489,154
Disbursements	
Operating	
Public Safety	$1,632,680
Public Works	676,135
Culture & Recreation	767,961
Community and Economic Development	667,509
General Government	904,880
Debt Service	949,402
Capital Projects	2,065,574
Total	$7,664,141

See Accompanying Independent Auditors' Report.

Gardiner Thomsen
Certified Public Accountants

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements listed in the table of contents, and have issued our report thereon dated September 30, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Grinnell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Grinnell's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grinnell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Grinnell and other parties to whom the City of Grinnell may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

September 30, 2005

City of Grinnell

Schedule of Findings

Year Ended June 30, 2005

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

A. 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. We noted that certain functions are not entirely segregated.

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

Response – We will review the procedures as suggested.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transaction and reports.

B. Credit Cards – The City has credit cards for use by various employees while on City business. Several transactions were noted that were not in compliance with the City's current written credit card policy. Additionally, supporting documentation was not always available to support credit card charges.

Recommendation – The City should update the formal written policy regulating the use of City credit cards.

Response – We will update the written policy to ensure compliance.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

1. Official Depositories – A resolution naming official depositories has been approved by the City. However, maximum deposit amounts were not included in the resolutions. There were two financial institutions for which there was no resolution.

Recommendation – The City should include all financial institutions utilized on the resolutions and the maximum deposit amounts should be stated on the resolutions.

Response – We will update the resolutions to include all banks and maximum deposit amounts.

Conclusion – Response accepted.

2. Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Culture and Recreation and Capital Projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

3. Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid To	Purpose	Amount
AJ's Steakhouse	Reception Dinner	$392
Bates Flowers	Funeral Flowers	37
Bountiful Baskets	Gift Basket for potential fire chiefs	200
The Main Squeeze	10 lunches for potential fire chiefs	37
Danish Maid Bakery	Cupcakes for Sesquicentennial	225
Depot Crossing	Catered Meeting	155
Carriage House Bed & Breakfast	Rooms for Russian visitors	865
Flowers on 4th	Flowers for Russian helpers and Mayors Gala	807
Bates Flowers	Funeral Flowers	75
Bank One Visa	Weekend Trip with Russian visitors	684

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under such circumstances, although such items will certainly

Other Findings Related to Required Statutory Reporting (Continued):

be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

4. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

5. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title & Business Connection	Transaction Description	Amount
Jim White, Council Member		
Bates Flowers	Funeral Flowers	$112

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent conflicts of interest since total transactions with the Council Member were less than $1,500 during the fiscal year.

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

7. Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

The Council went into closed session on three occasions during the fiscal year. On two occasions, the minutes record did not document the information required by Chapter 21 of the Code of Iowa, commonly known as the open meetings law.

The minutes of the Council meetings are submitted for publication within fifteen days of a meeting as required by Chapter 372.16(6) of the Code of Iowa, however they have not been published in a timely manner by the newspaper.

The minutes do not properly record disbursements from each fund or a summary of receipts. Claims are published separately however the purpose of the claim is not included. Claims listings are submitted on a timely basis, however the listings are not published in a timely manner by the newspaper.

Recommendation – The outcome of a closed session is to be reported in the minutes as required by Chapter 21 of the Code of Iowa. Minutes should include the

Other Findings Related to Required Statutory Reporting (Continued):

information regarding fund disbursements and a summary of receipts. Claims listings should include the purpose of the expenditure and be published timely.

Response – The minutes will report the required information regarding closed sessions receipts and disbursements. We will encourage the newspaper to publish on a timely basis.

Conclusion – Response accepted.

8. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

9. Economic Development – The City paid $351,865 for economic development which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Council should evaluate and document the public purpose served by the expenditures before authorizing further payments and should require documentation of how the funds were used to accomplish development activities.

Response – We will properly document the public purpose of the expenditures.

Conclusion – Response accepted.

10. Financial Condition – The Debt Service Fund had a deficit balance at June 30, 2005 of $161,640.

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

Response – The deficit was caused by insufficient transfers from other funds to cover debt payments. We will monitor this more closely in the future.

Conclusion – Response accepted.

NEWS RELEASE

Gardiner Thomsen, Certified Public Accountants, today released an audit report on the City of Grinnell.

The City's receipts totaled $10,088,436 for the year ended June 30, 2005, an 18% increase from 2004. The receipts included $3,076,471 in property tax, $495,897 from tax increment financing collections, $3,514,143 from charges for service, $1,259,035 from operating grants, contributions and restricted interest, $29,882 from capital grants, contributions and restricted interest, $192,596 from unrestricted investment earnings and $1,520,412 from other general receipts.

Disbursements for the year totaled $7,664,141, a 20% increase from the prior year, and included $2,065,574 for Capital Projects, $1,632,680 for Public Safety, and $949,402 for Debt Service. Also, disbursements for business type activities totaled $2,583,518.

The significant increase in receipts/disbursements is due primarily to operating grants and reimbursement revenues/Capital projects and Debt Service expenditures.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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