

CITY OF GRINNELL
Grinnell, Iowa

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

June 30, 2006

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CITY OF GRINNELL

Officials

(Before January 2006)

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 Behrens.....	City Administrator	Indefinite
Cassandra Hage.....	City Clerk/Treasurer Administrator	Indefinite
William Sueppel.....	City Attorney	Indefinite

(After January 2006)

Gordon Canfield.....	Mayor	January 2008
James White	Council Member	January 2010
Olivia Wright	Council Member	January 2010
Steve Witt.....	Council Member	January 2008
Shannon McNaul	Council Member	January 2010
Larry Wilson	Council Member	January 2008
Byron Worley.....	Council Member	January 2008
Russell Behrens.....	City Administrator	Indefinite
Cassandra Hage*.....	City Clerk/Treasurer Administrator	Indefinite
William Sueppel.....	City Attorney	Indefinite

*Resigned May 2006, Ann Marie Wingerter, Interim



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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of 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 opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 26 through 28 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with another comprehensive basis of accounting. The financial statements for the two years ending June 30, 2004 were audited by other auditors. Unqualified opinions were expressed. Other supplementary information included in Schedules 1 through 6 including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 26, 2006

Garland Thompson, 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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This is the third 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,	
	2006	2005
Receipts		
Program Receipts		
Charges for Service	\$304	\$246
Operating Grants	1,756	1,259
Capital Grants	1,206	30
General Receipts		
TIF	503	496
Property Tax	3,121	3,076
Grants and Contributions not restricted to specific purposes	1,059	1,189
Bonds Proceeds	317	3,725
Other General Receipts	210	230
Transfers, Net	888	421
Total Receipts and Transfers	9,364	10,672
Disbursements		
Public Safety	1,768	1,633
Public Works	778	676
Culture and Recreation	876	768
Community and Economic Development	974	668
General Government	1,037	905
Debt Service	696	949
Capital projects	6,304	2,065
Total Disbursements	12,433	7,664
(Increase) Decrease in Cash Basis Net Assets	(3,069)	3,008
Cash Basis Net Assets Beginning of Year	7,254	4,246
Cash Basis Net Assets End of Year	\$4,185	\$7,254

The City's total receipts for governmental activities decreased by 12% or \$1,308,000. The total cost of all programs and services increased by approximately 62% or \$4,769,000, with no new programs added this year.

The cost of all governmental activities this year was \$12,433,398 compared to \$7,664,141 last year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2006	2005
Receipts and Transfers		
Program Receipts		
Charges for Service		
Water	\$972	\$868
Sewer	1,279	1,254
Garbage	745	667
Other	422	479
Grants	109	0
	3,527	3,268
General Receipts		
Bonds Proceeds	0	200
Other General Receipts	232	94
Total Receipts and Transfers	3,759	3,562
Disbursements and Transfers		
Water	855	733
Sewer	738	665
Garbage	767	760
Transfers	888	421
Other	454	425
Total Disbursements and Transfers	3,702	3,004
Increase (Decrease) in Cash Balance	57	558
Cash Basis Net Assets - Beginning of Year	2,949	2,391
Cash Basis Net Assets - End of Year	\$3,006	\$2,949

Total business type activities receipts for the fiscal year were \$3,759,580 compared to \$3,562,445 last year. The cash balance increased by \$57,165 from the prior year. Total disbursements and transfers for the fiscal year increased by 23% to a total of \$3,702,415.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grinnell completed the year, its governmental funds reported a combined fund balance of \$4,184,983, a decrease of \$3,068,989 from last year's total of \$7,253,971. The following are changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$62,750 from the prior year to \$676,982 during the fiscal year.

- The Road Use Tax Fund cash balance increased by \$150,289 to \$939,401 during the fiscal year.
- The Employee Benefits Fund cash balance increased by \$117,753 to \$305,592 during the fiscal year.
- The Equipment Fund cash balance decreased by \$242,432 to \$773,674 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$12,111 to \$419,573, due primarily to an increase in the sale of water.
- The Sewer Fund cash balance increased by \$70,783 to \$1,812,115.
- The Solid Waste cash balance increased by \$4,288 to \$50,174.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$6,606,783 in bonds and other long-term debt, compared to \$6,725,000 last year as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2006	2005
General Obligation Notes	\$3,667	\$3,500
Revenue Notes	2,940	3,225
Total	\$6,607	\$6,725

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 \$3,666,783 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 2007 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 P. Kay Cmelik, 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, 2006

Functions/Programs:	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Governmental Activities:				
Public Safety	\$1,768,132	\$35,502	\$130,002	\$80,036
Public Works	778,029	17,715	773,371	0
Culture & Recreation	876,011	217,864	90,859	0
Community & Economic Development	974,415	0	506,797	0
General Government	1,037,363	17,407	0	0
Debt Service	696,402	0	0	0
Capital Projects	6,303,046	15,182	255,084	1,126,758
Total Governmental Activities	12,433,398	303,670	1,756,113	1,206,794
Business Type Activities:				
Water	854,767	972,471	0	0
Sewer Rental	738,077	1,279,084	0	108,130
Solid Waste	767,472	744,898	0	0
Building & Housing	127,733	264,628	0	0
Other	326,335	156,734	775	0
Total Business Type Activities	2,814,384	3,417,815	775	108,130
Total	\$15,247,782	\$3,721,485	\$ 1,756,888	\$1,314,924

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
 Note Proceeds
 Miscellaneous
 Utility Franchise
 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
\$(1,522,592)	\$ 0	\$(1,522,592)
13,057	0	13,057
(567,288)	0	(567,288)
(467,618)	0	(467,618)
(1,019,956)	0	(1,019,956)
(696,402)	0	(696,402)
(4,906,022)	0	(4,906,022)
(9,166,821)	0	(9,166,821)
0	117,704	117,704
0	649,137	649,137
0	(22,574)	(22,574)
0	136,895	136,895
0	(168,826)	(168,826)
0	712,336	712,336
\$(9,166,821)	\$712,336	(8,454,485)
\$2,743,827	\$ 0	2,743,827
503,377	0	503,377
376,518	0	376,518
62,856	0	62,856
1,058,958	0	1,058,958
111,106	30,817	141,923
316,783	0	316,783
18,070	202,043	220,113
18,306	0	18,306
888,031	(888,031)	0
6,097,832	(655,171)	5,442,661
(3,068,989)	57,165	(3,011,824)
7,253,972	2,948,609	10,202,581
\$4,184,983	\$3,005,774	\$7,190,757
\$939,401	\$ 0	\$939,401
291,362	0	291,362
101,181	387,695	488,876
2,176,057	0	2,176,057
676,982	2,618,079	3,295,061
\$4,184,983	\$3,005,774	\$7,190,757

CITY OF GRINNELL

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property Tax	\$1,877,945	\$ 0	\$828,383
Tax Increment Financing Collections	0	0	0
Other City Tax	4,755	0	2,327
Licenses & Permits	14,309	0	0
Use of Money & Property	86,504	0	0
Intergovernmental	664,009	762,320	30,416
Charges for Service	221,354	0	0
Special Assessments	0	0	0
Miscellaneous	228,070	0	0
Total Receipts	3,096,946	762,320	861,126
Disbursements:			
Operating			
Public Safety	1,304,769	0	458,569
Public Works	143,640	521,381	113,008
Health & Social Services	0	0	0
Culture & Recreation	740,698	0	126,899
Community & Economic Development	541,537	0	330
General Government	261,631	0	84,567
Debt Service	0	0	0
Capital Projects	13,813	0	0
Total Disbursements	3,066,088	521,381	783,373
Excess (Deficiency) of Receipts Over (Under) Disbursements	90,858	240,939	77,753
Other Financing Sources (Uses):			
Note Proceeds	0	0	0
Sale of Capital Assets	0	0	0
Operating Transfers In	138,699	0	40,000
Operating Transfers Out	(166,807)	(90,650)	0
	(28,108)	(90,650)	40,000
Net Change in Cash Balances	62,750	150,289	117,753
Cash Balances Beginning of Year	614,232	789,112	187,839
Cash Balances End of Year	\$676,982	\$939,401	\$305,592
Cash Basis Fund Balances			
Reserved:			
Debt Service	\$ 0	\$ 0	\$ 0
Cemetery Perpetual Care	0	0	0
Unreserved:			
General Fund	676,982	0	0
Special Revenue Funds	0	939,401	305,592
Capital Projects Funds	0	0	0
Total Cash Basis Fund Balances	\$676,982	\$939,401	\$305,592

See Notes to Financial Statement

Exhibit B

<u>Special Revenue</u>			Other Nonmajor Governmental	
Equipment	Debt Service	Capital Projects	Funds	Total
\$ 0	\$349,707	\$ 0	\$ 0	\$3,056,035
0	0	0	503,377	503,377
0	973	0	62,856	70,911
0	0	0	0	14,309
119	0	33,271	3,516	123,410
0	25,838	1,381,842	0	2,864,425
0	0	143	0	221,497
0	0	15,039	0	15,039
217,158	0	248,167	597,197	1,290,592
<u>217,277</u>	<u>376,518</u>	<u>1,678,462</u>	<u>1,166,946</u>	<u>8,159,595</u>
0	0	0	4,794	1,768,132
0	0	0	0	778,029
0	0	0	0	0
0	0	0	8,414	876,011
0	0	0	432,548	974,415
0	0	0	691,165	1,037,363
0	696,402	0	0	696,402
843,793	0	5,445,421	19	6,303,046
<u>843,793</u>	<u>696,402</u>	<u>5,445,421</u>	<u>1,136,940</u>	<u>12,433,398</u>
<u>(626,516)</u>	<u>(319,884)</u>	<u>(3,766,959)</u>	<u>30,006</u>	<u>(4,273,803)</u>
0	0	316,783	0	316,783
0	0	0	0	0
384,084	582,705	0	0	1,145,488
0	0	0	0	(257,457)
<u>384,084</u>	<u>582,705</u>	<u>316,783</u>	<u>0</u>	<u>1,204,814</u>
<u>(242,432)</u>	<u>262,821</u>	<u>(3,450,176)</u>	<u>30,006</u>	<u>(3,068,989)</u>
<u>1,016,106</u>	<u>(161,640)</u>	<u>3,475,235</u>	<u>1,333,088</u>	<u>7,253,972</u>
<u>\$773,674</u>	<u>\$101,181</u>	<u>\$(25,059)</u>	<u>\$1,363,094</u>	<u>\$4,184,983</u>
\$ 0	\$101,181	\$ 0	\$ 0	\$101,181
0	0	0	460,966	460,966
0	0	0	0	676,982
773,674	0	0	902,128	2,920,795
0	0	25,059	0	25,059
<u>\$773,674</u>	<u>\$101,181</u>	<u>\$25,059</u>	<u>\$1,363,094</u>	<u>\$4,184,983</u>

CITY OF GRINNELL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN FUND BALANCES – PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2006**

	Water	Sewer	Solid Waste	Nonmajor Enterprise Funds	Total
Operating Receipts:					
Use of Money & Property	\$ 0	\$ 0	\$ 0	\$ 44,528	\$44,528
Charges for Service	945,871	1,207,099	744,898	376,834	3,274,702
Miscellaneous	26,600	268,298	108,922	5,713	409,533
Total Operating Receipts	972,471	1,475,397	853,820	427,075	3,728,763
Operating Disbursements:					
Business Type Activities	854,767	738,077	767,472	454,068	2,814,384
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	117,704	737,320	86,348	(26,993)	914,379
Non-Operating Receipts (Disbursements):					
Interest on Investments	7,407	13,022	1,240	9,148	30,817
Excess (Deficiency) of Receipts Over (Under) Disbursements	125,111	750,342	87,588	(17,845)	945,196
Operating Transfers Out	(113,000)	(679,559)	(83,300)	(12,172)	(888,031)
Net Change in Cash Balances	12,111	70,783	4,288	(30,017)	57,165
Cash Balances Beginning of Year	407,462	1,741,332	45,886	753,929	2,948,609
Cash Balances End of Year	\$419,573	\$1,812,115	\$50,174	\$723,912	\$3,005,774
Cash Basis Fund Balances					
Reserved for Debt Services	\$ 0	\$387,695	\$ 0	\$ 0	\$387,695
Unreserved	419,573	1,424,420	50,174	723,912	2,618,079
Total Cash Basis Fund Balances	\$419,573	\$1,812,115	\$50,174	\$723,912	\$3,005,774

See Notes to Financial Statements

CITY OF GRINNELL
June 30, 2006

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.

Notes to Financial Statements (Continued)

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 nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's 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.

Notes to Financial Statements (Continued)

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.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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, 2006, disbursements exceeded the amounts budgeted in the Capital Projects function.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$173,847 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.

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments (Continued)

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

Note 3: Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes & Bonds		Revenue Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$297,056	\$123,579	\$290,000	\$97,695	\$587,056	\$221,274
2008	302,599	113,459	300,000	89,575	602,599	203,034
2009	304,143	102,856	300,000	80,875	604,143	183,731
2010	409,737	94,149	315,000	72,175	724,737	166,324
2011	435,370	81,516	325,000	62,095	760,370	143,611
2012	451,044	67,455	325,000	51,208	776,044	118,663
2013	466,762	52,217	350,000	39,995	816,762	92,212
2014	487,526	36,210	360,000	27,570	847,526	63,780
2015	498,339	19,008	375,000	14,250	873,339	33,258
2016	14,207	923	0	0	14,207	923
Total	\$3,666,783	\$691,372	\$2,940,000	\$535,438	\$6,606,783	\$1,226,810

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.

On May 15, 2006, the City issued \$108,755 of Taxable General Obligation Loan Notes and \$208,028 of General Obligation Loan Notes. Interest is due July 1, 2007 and semiannually thereafter. Principal is due annually commencing June 1, 2007 through June 1, 2016 and June 1, 2008, respectively. The notes were issued for the purpose of construction at the airport and essential and general corporate purposes.

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

Notes to Financial Statements (Continued)

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$98,457, \$98,581, and \$97,623, 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, 2006, 2005, and 2004 were \$224,145, \$198,477, and \$157,430, 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, 2006, primarily relating to the General Fund, is as follows:

Notes to Financial Statements (Continued)

Note 5: Compensated Absences (Continued)

Type of Benefit	Amount
Vacation	\$82,519
Compensated Absences	6,654
Total	<u>\$89,173</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

Note 6: Interfund Transfers

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

Transfer To	Transfer From	Amount
General	Enterprise: Building and Housing	<u>\$138,699</u>
Special Revenue: Employee Benefits	General	<u>40,000</u>
Equipment	General	30,000
	Special Revenue: Road Use Tax	90,650
	Enterprise: Water	100,000
	Sewer	93,134
	Solid Waste	70,300
		<u>384,084</u>
Debt Service	Enterprise: Sewer	573,425
	Airport Enterprise	9,280
		<u>582,705</u>
Enterprise: Community Center	General	44,811
	Enterprise: Water	13,000
	Sewer	13,000
	Solid Waste	13,000
	Building and Housing	13,000
		<u>96,811</u>
Airport Enterprise	General	<u>51,996</u>
Total		<u>\$1,294,295</u>

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

Notes to Financial Statements (Continued)

Note 7: 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 \$9.5 million is outstanding at June 30, 2006. 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 8: 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, 2006 were \$126,158.

Notes to Financial Statements (Continued)

Note 8: 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, 2006 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 9: 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, 2006, disbursements in the Capital Projects function 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property Tax	\$3,056,035	\$ 0	\$3,056,035
Tax Increment Financing	503,377	0	503,377
Other City Tax	70,911	0	70,911
Licenses & Permits	14,309	0	14,309
Use of Money & Property	123,410	75,345	198,755
Intergovernmental	2,864,425	0	2,864,425
Charges for Service	221,497	3,274,702	3,496,199
Special Assessments	15,039	0	15,039
Miscellaneous	1,290,592	409,533	1,700,125
Total Receipts	8,159,595	3,759,580	11,919,175
Disbursements:			
Public Safety	1,768,132	0	1,768,132
Public Works	778,029	0	778,029
Culture & Recreation	876,011	0	876,011
Community & Economic Development	974,415	0	974,415
General Government	1,037,363	0	1,037,363
Debt Service	696,402	0	696,402
Capital Projects	6,303,046	0	6,303,046
Business Type Activities	0	2,814,384	2,814,384
Total Disbursements	12,433,398	2,814,384	15,247,782
Excess of Receipts Over Disbursements	(4,273,803)	945,196	(3,328,607)
Other Financing Sources (Uses) Net	1,204,814	(888,031)	316,783
Excess of Receipts & Other Financing Sources Over Disbursements & Other Financing Uses	(3,068,989)	57,165	(3,011,824)
Balances Beginning of Year	7,253,972	2,948,609	10,202,581
Balances End of Year	\$4,184,983	\$3,005,774	\$7,190,757

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Total
Original	Final	Variance
\$3,047,106	\$3,047,106	\$8,929
512,390	512,390	(9,013)
141,439	141,439	(70,528)
14,025	14,025	284
128,260	128,260	70,495
3,433,401	3,433,401	(568,976)
4,150,993	4,150,993	(654,794)
6,150	6,150	8,889
741,843	741,843	958,282
12,175,607	12,175,607	(256,432)
1,813,699	1,813,699	45,567
796,598	796,598	18,569
1,126,033	1,126,033	250,022
1,001,882	1,001,882	27,467
1,068,754	1,107,754	70,391
1,098,379	1,098,379	401,977
5,512,771	5,732,571	(570,475)
3,348,307	3,348,307	533,923
15,766,423	16,025,223	777,441
(3,590,816)	(3,849,616)	521,009
338,028	338,028	(21,245)
(3,252,788)	(3,511,588)	499,764
10,136,839	11,234,062	(1,031,481)
\$6,884,051	\$7,722,474	\$(531,717)

City of Grinnell

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except 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 \$777,441. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Capital Projects function.

Other Supplementary Information

CITY OF GRINNELL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2006**

	Tax Increment Financing	Unemployment Reserve	Pension Reserve	Insurance Deductible	Insurance Reserve	Insurance Escrow
Receipts:						
Tax Increment Financing Collections	\$503,377	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other City Tax	0	0	0	0	0	0
Use of Money & Property	0	0	143	668	0	0
Miscellaneous	0	0	0	0	580,445	0
Total Receipts	503,377	0	143	668	580,445	0
Disbursements:						
Operating:						
Public Safety	0	0	4,794	0	0	0
Culture & Recreation	0	0	0	0	0	0
Community & Economic Development	352,901	0	0	0	0	0
General Government	0	0	0	2,000	689,165	0
Capital Projects	0	0	0	0	0	0
Total Disbursements	352,901	0	4,794	2,000	689,165	0
Excess of Cash over Disbursements	150,476	0	(4,651)	(1,332)	(108,720)	0
Net Change in Cash Balances	150,476	0	(4,651)	(1,332)	(108,720)	0
Cash Balances Beginning of Year	140,886	35,561	19,209	78,932	216,728	9,482
Cash Balances End of Year	\$291,362	\$35,561	\$14,558	\$77,600	\$108,008	\$9,482
Cash Basis Fund Balances						
Reserved for Cemetery Perpetual Care	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved:						
Special Revenue Funds	291,362	35,561	14,558	77,600	108,008	9,482
Total Cash Basis Fund Balances	\$291,362	\$35,561	\$14,558	\$77,600	\$108,008	\$9,482

See Accompanying Independent Auditors' Report

Schedule 1

Hotel Motel Tax	Library	Special Assessments	Cemetery Plantings	Cemetery Trees	Permanent Cemetery Perpetual Care	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$503,377
62,856	0	0	0	0	0	62,856
438	1,950	693	0	0	(376)	3,516
0	6,655	0	545	390	9,162	597,197
63,294	8,605	693	545	390	8,786	1,166,946
<hr/>						
0	0	0	0	0	0	4,794
0	8,414	0	0	0	0	8,414
79,647	0	0	0	0	0	432,548
0	0	0	0	0	0	691,165
0	0	0	19	0	0	19
79,647	8,414	0	19	0	0	1,136,940
<hr/>						
(16,353)	191	693	526	390	8,786	30,006
<hr/>						
(16,353)	191	693	526	390	8,786	30,006
<hr/>						
62,580	226,402	83,966	7,002	160	452,180	1,333,088
<hr/>						
\$46,227	\$226,593	\$84,659	\$7,528	\$550	\$460,966	\$1,363,094
<hr/>						
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$460,966	\$460,966
46,227	226,593	84,659	7,528	550	0	902,128
\$46,227	\$226,593	\$84,659	\$7,528	\$550	\$460,966	\$1,363,094

CITY OF GRINNELL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN BALANCES – NONMAJOR PROPRIETARY FUNDS**

As of and for the Year Ended June 30, 2006

	GET 12	Building & Housing	Concessions	Airport Enterprise
Operating Receipts:				
Use of Money & Property	\$ 0	\$ 0	\$ 0	\$ 0
Charges for Service	41,092	264,628	0	30,530
Miscellaneous	335	325	3,723	0
Total Operating Receipts	<u>41,427</u>	<u>264,953</u>	<u>3,723</u>	<u>30,530</u>
Operating Disbursements:				
Business Type Activities	<u>36,937</u>	<u>127,733</u>	<u>2,262</u>	<u>66,380</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements				
	4,490	137,220	1,461	(35,850)
Non-Operating Receipts:				
Interest on Investments	<u>205</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements				
	4,695	137,220	1,461	(35,850)
Operating Transfers In (Out)	0	(151,699)	0	42,716
Net Change in Cash Balances	4,695	(14,479)	1,461	6,866
Cash Balances Beginning of Year	<u>24,232</u>	<u>518,185</u>	<u>5,917</u>	<u>17,628</u>
Cash Balances End of Year	<u>\$28,927</u>	<u>\$503,706</u>	<u>\$7,378</u>	<u>\$24,494</u>
Cash Basis Fund Balances				
Unreserved	<u>\$28,927</u>	<u>\$503,706</u>	<u>\$7,378</u>	<u>\$24,494</u>

See Notes to Financial Statements

See Accompanying Independent Auditors' Report

Schedule 2

Community Center	Cemetery	Total
\$44,528	\$ 0	\$44,528
0	40,584	376,834
1,330	0	5,713
45,858	40,584	427,075
163,638	57,118	454,068
(117,780)	(16,534)	(26,993)
0	8,943	9,148
(117,780)	(7,591)	(17,845)
96,811	0	(12,172)
(20,969)	(7,591)	(30,017)
173,377	14,590	753,929
\$152,408	\$6,999	\$723,912
\$152,408	\$6,999	\$723,912

CITY OF GRINNELL

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes and Bonds			
2005 Bonds	January 1, 2005	2.20-3.55%	\$500,000
2006 A Capital Loan Note	May 15, 2006	5.00%	208,028
2006 B Capital Loan Note	May 15, 2006	6.50%	108,755
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
\$3,500,000	\$ 0	\$150,000	\$3,350,000	\$154,927	\$ 0
0	208,028	0	208,028	0	0
0	108,755	0	108,755	0	0
3,500,000	316,783	150,000	3,666,783	154,927	0
3,225,000	0	285,000	2,940,000	105,675	0
\$6,725,000	\$316,783	\$435,000	\$6,606,783	\$260,602	\$ 0

CITY OF GRINNELL
Bond and Note Maturities
June 30, 2006

General Obligation Bonds		
2005		
\$3,500,000 Issued		
Year Ending June 30,	Interest Rate	Amount
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		\$3,350,000

Revenue Notes		
Sewer		
Refunding Notes		
Year Ending June 30,	Interest Rate	Amount
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		\$2,940,000

See Accompanying Independent Auditors' Report

Schedule 4

General Obligation Note			General Obligation Note	
2006A			2006 B	
\$208,028 Issued			\$108,755 Issued	
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount
2007	5%	\$104,014	6.5%	\$8,042
2008	5%	104,014	6.5%	8,584
2009	—	—	6.5%	9,143
2010	—	—	6.5%	9,737
2011	—	—	6.5%	10,370
2012	—	—	6.5%	11,044
2013	—	—	6.5%	11,762
2014	—	—	6.5%	12,526
2015	—	—	6.5%	13,340
2016	—	—	6.5%	14,207
		<u>\$208,028</u>		<u>\$108,755</u>

CITY OF GRINNELL

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS
BY FUNCTION – ALL GOVERNMENTAL FUNDS
For the Last Two Years**

	2006	2005
Receipts		
Property Tax	\$3,056,035	\$3,070,756
Tax Increment Financing Collections	503,377	495,897
Other City Tax	70,911	61,123
Licenses & Permits	14,309	19,090
Use of Money & Property	123,410	110,910
Intergovernmental	2,864,425	1,053,762
Charges for Service	221,497	258,076
Special Assessments	15,039	2,133
Miscellaneous	1,290,592	1,417,407
Total	<u>\$8,159,595</u>	<u>\$6,489,154</u>
Disbursements		
Operating		
Public Safety	\$1,768,132	\$1,632,680
Public Works	778,029	676,135
Culture & Recreation	876,011	767,961
Community & Economic Development	974,415	667,509
General Government	1,037,363	904,880
Debt Service	696,402	949,402
Capital Projects	6,303,046	2,065,574
Total	<u>\$12,433,398</u>	<u>\$7,664,141</u>

See Accompanying Independent Auditors' Report.

Schedule 6

CITY OF GRINNELL

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006**

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Housing & Urban Development: Economic Development Initiative – Special Purpose Grants	14.246	B-04-SP-IA-0256	\$4,000
U.S. Department of Transportation Federal Aviation Administration Airport Improvement Program	20.106		462,713
Department of Homeland Security: Assistance to Firefighters Grant	97.044		<u>80,036</u>
Total Direct			<u>546,749</u>
Indirect:			
U.S. Department of Housing & Urban Development: Iowa Department of Economic Development: Community Development Block Grants/ State's Program	14.228	05-HSG-010	139,372
U.S. Department of Transportation: Iowa Department of Transportation: Highway Planning & Construction	20.205	1-04-STPU-020	640,250
National Highway Traffic Safety Administration: Iowa Department of Public Safety: Traffic Safety Bureau: Seat Belt Use Incentive Grant	20.604		<u>4,259</u>
Total Indirect			<u>783,881</u>
Total			<u><u>\$1,330,630</u></u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Grinnell and is presented in conformity with another comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's 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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 26, 2006. 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 Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 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, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of 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 26, 2006

Gardiner Thomsen, P.C.



**Independent Auditors' Report on Internal Control on Compliance with
Requirements Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Grinnell, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Grinnell's major federal programs are identified in part I of the Accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City of Grinnell's management. Our responsibility is to express an opinion on the City of Grinnell's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grinnell's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Grinnell's compliance with those requirements.

In our opinion, the City of Grinnell complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures disclosed no instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the City of Grinnell is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Grinnell's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be a material weakness. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

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 might report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 26, 2006

Gardiner Thomsen, P.C.

City of Grinnell

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (A) Unqualified opinions were issued on the financial statements which 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.
- (B) Reportable conditions in internal control over financial reporting were disclosed by the audit of financial statements, including a material weakness.
- (C) The audit did not disclose any non-compliance which is material to the financial statements.
- (D) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (E) The audit disclosed no audit findings which were required to be reported in compliance with Office Management and Budget Circular A-133, Section .510(a).
- (F) The major programs were CFDA Number 20.106 – Airport Improvement Program and CFDA Number 20.205 – Highway Planning and Construction.
- (G) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (H) The City of Grinnell did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. 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.

Part II: Findings Related to the Financial Statements (Continued)

II-B-06 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 have updated our written policy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the Capital Projects function. 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.

IV-B-06 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:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Depot Crossing Wal-Mart	Catered Meeting Rolls for Police Department New Hire Final Interviews	\$84 8

Part IV: Other Findings Related to Required Statutory Reporting (Continued)

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 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.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – There were no business transactions noted between the City and City officials or employees during the fiscal year.

IV-E-06 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.

IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

The minutes of the Council meetings are not always submitted for publication within fifteen days of a meeting as required by Chapter 372.13(6) of the Code of Iowa.

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

Recommendation – Minutes should include the information regarding fund disbursements and a summary of receipts. Claims listings should be published timely.

Response – The minutes will be submitted on a timely basis. We will encourage the newspaper to publish on a timely basis.

Conclusion – Response accepted.

IV-G-06 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.

IV-H-06 Economic Development – The City paid \$352,866 for economic development which may not be an appropriate expenditure of public funds.

Part IV: Other Findings Related to Required Statutory Reporting (Continued)

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.

