



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE January 25, 2007

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Auditor of State David A. Vaudt today released an audit report on the City of Granger, Iowa.

The City's receipts totaled \$1,433,571 for the year ended June 30, 2006. The receipts included \$295,967 in property tax, \$51,176 from tax increment financing, \$445,593 from charges for service, \$94,151 from operating grants, contributions and restricted interest, \$57,959 from capital grants, contributions and restricted interest, \$67,899 from local option sales tax, \$13,392 from unrestricted interest on investments, \$400,000 from project anticipation note proceeds and \$7,434 from other general receipts.

Disbursements for the year totaled \$1,134,604, and included \$183,194 for capital projects, \$145,079 for public safety and \$128,594 for general government. Also, disbursements for business type activities totaled \$277,155.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2006

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City of Granger

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Thomas Schenk	Mayor	Jan 2006
Gerald Moorehead	Mayor Pro tem	Jan 2006
Michael Von Hagen	Council Member	Jan 2006
James Doyle	Council Member	Jan 2008
Robert Herrold	Council Member	Jan 2008
Cathy Fuson	Council Member	Jan 2008
(After January 2006)		
Thomas Schenk	Mayor	Jan 2008
James Doyle	Mayor Pro tem	Jan 2008
Robert Herrold	Council Member	Jan 2008
Cathy Fuson	Council Member	Jan 2008
David Chambers	Council Member	Jan 2010
Darrell Kirk	Council Member	Jan 2010
Anita Ridlen	Clerk/Treasurer	Indefinite
Ralph Brown	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Granger, 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 Granger's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Granger 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.

As described in Note 9, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006 on our consideration of the City of Granger'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 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Granger's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Granger provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental funds increased by approximately \$198,000, due primarily to project anticipation notes sold and not completely spent during the year.
- The cash basis net assets of the City's business type activities increased by approximately \$101,000 due to increases in water and sewer fee collections.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's outstanding debt.

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 operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that 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, health and social services, 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 water, sewer and garbage systems. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial 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 and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and garbage operations. The Water and Sewer Funds are considered to be major funds of the City. The Internal Service Fund is an accounting device used to accumulate and allocate vehicle replacement costs internally among the City's various functions.

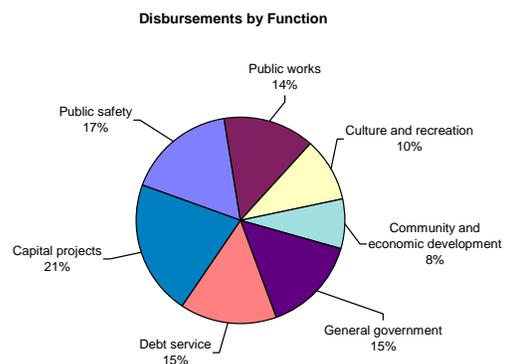
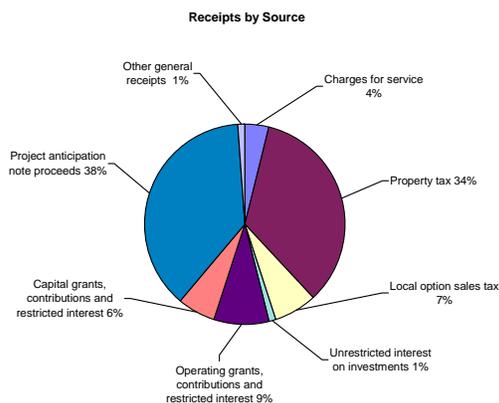
The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$164,595 to \$362,170. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 42
Operating grants, contributions and restricted interest	94
Capital grants, contributions and restricted interest	58
General receipts:	
Property tax	347
Local option sales tax	68
Unrestricted interest on investments	7
Project anticipation note proceeds	400
Other general receipts	7
Transfers, net	31
Total receipts and transfers	1,054
Disbursements:	
Public safety	145
Public works	121
Culture and recreation	89
Community and economic development	65
General government	129
Debt service	125
Capital projects	183
Total disbursements	857
Increase in cash basis net assets	197
Cash basis net assets beginning of year	165
Cash basis net assets end of year	\$ 362



The cash basis net assets of the City's governmental funds increased from \$164,595 to \$362,170 due primarily to project anticipation notes sold and not completely spent during the year

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 201
Sewer	162
Garbage	40
General receipts:	
Unrestricted interest on investments	7
Total receipts	<u>410</u>
Disbursements and transfers:	
Water	83
Sewer	155
Garbage	39
Transfers	31
Total disbursements and transfers	<u>308</u>
Increase in cash basis net assets	102
Cash basis net assets beginning of year	<u>282</u>
Cash basis net assets end of year	<u>\$ 384</u>

Total business type activities balance increased from a year ago, increasing from \$282,394 to \$383,786. The increase is due to an increase in water and sewer fee collections.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Granger completed the year, its governmental funds reported a combined fund balance of \$361,158, an increase of more than \$197,000 above last year's total of \$163,588. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$80,303 from the prior year to a year-end balance of \$17,146. This decrease is due to a reduction in property tax asking for insurance, local option sales taxes not recorded in the General Fund this year, a reduction in grants received and disbursements for ball field lights.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$8,388 to \$13,130 during the fiscal year. This increase was attributable to an increase in road use tax allocations received and a decrease in total operating disbursements.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$2,381 to \$50,898 during the fiscal year. The increase was not significant.
- The Debt Service Fund cash balance increased by \$44,482 to \$49,057 during the fiscal year. The increase was primarily due to an increase in property taxes received.
- The Capital Projects Fund cash balance at year end was \$217,446, representing unspent project anticipation note proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$121,949 to a year-end balance of \$229,378. This increase was due primarily to the addition of irrigation meter revenues and an increase in customers, resulting in an increase in collections of \$74,370.
- The Sewer Fund cash balance decreased by \$21,458 to a year-end balance of \$151,899. The decrease was due primarily to a \$31,449 transfer to the General Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 10, 2006 and resulted in an increase in operating disbursements of approximately \$213,000 related to the capital projects and business type activities functions. The City sold project anticipation notes and used charges for service receipts to absorb these additional costs.

Even with this budget amendment, the City exceeded the budget for the public works, culture and recreation, community and economic development, general government and capital projects functions for the year ended June 30, 2006. Actual charges for service receipts exceeded the budget due to more housing being built. Budgeted debt service disbursements exceeded actual disbursements due to business type debt being budgeted with debt service.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$1,539,000 in long-term and interim financing debt outstanding, compared to \$1,262,000 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End	
	June 30, 2006
General obligation notes	\$ 660,000
Revenue bonds	479,000
General obligation project anticipation notes	400,000
Total	<u>\$ 1,539,000</u>

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 is \$1,060,000, below its constitutional debt limit of approximately \$1,769,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Granger's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY2007 assessed value has increased \$4,716,870 from the FY 2006 level.

The FY2007 budget contains total receipts of \$1,123,491 and disbursements of \$1,138,041. This budget is considerably higher than the original FY2006 budget which contained total receipts of \$890,601 and disbursements of \$936,069. The FY2007 budget included approximately \$240,000 in additional receipts for proprietary fund charges for service.

The FY2007 levy is \$12.65302 per \$1,000 of taxable valuation, a decrease from \$12.98859 per \$1,000 of taxable valuation for FY2006. The debt service levy decreased from \$4.88859 per \$1,000 of taxable valuation for FY2006 to \$3.83651 per \$1,000 of taxable valuation for FY2007 due to the increase in taxable valuation in FY2007.

These parameters were taken into account when adopting the budget for FY2007.

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 Anita Ridlen, City Clerk, 1906 Main Street, Granger, IA 50109.

Basic Financial Statements

City of Granger

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 145,079	41,005	32,825	-
Public works	121,019	-	49,404	36,401
Culture and recreation	88,831	-	3,567	2,500
Community and economic development	65,555	-	-	-
General government	128,594	1,320	8,355	18,418
Debt service	125,177	-	-	-
Capital projects	183,194	-	-	640
Total governmental activities	857,449	42,325	94,151	57,959
Business type activities:				
Water	82,959	201,308	-	-
Sewer	155,110	161,978	-	-
Garbage	39,086	39,982	-	-
Total business type activities	277,155	403,268	-	-
Total	\$ 1,134,604	445,593	94,151	57,959

General Receipts:

Property and other city tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Project anticipation note proceeds
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Streets
 Local option sales tax
 Debt service
 Capital projects
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(71,249)	-	(71,249)
(35,214)	-	(35,214)
(82,764)	-	(82,764)
(65,555)	-	(65,555)
(100,501)	-	(100,501)
(125,177)	-	(125,177)
(182,554)	-	(182,554)
<u>(663,014)</u>	<u>-</u>	<u>(663,014)</u>
-	118,349	118,349
-	6,868	6,868
-	896	896
<u>-</u>	<u>126,113</u>	<u>126,113</u>
<u>(663,014)</u>	<u>126,113</u>	<u>(536,901)</u>
179,984	-	179,984
51,176	-	51,176
115,983	-	115,983
67,899	-	67,899
6,664	6,728	13,392
400,000	-	400,000
7,434	-	7,434
31,449	(31,449)	-
<u>860,589</u>	<u>(24,721)</u>	<u>835,868</u>
197,575	101,392	298,967
164,595	282,394	446,989
<u>\$ 362,170</u>	<u>383,786</u>	<u>745,956</u>
\$ 13,130	-	13,130
50,898	-	50,898
49,057	48,249	97,306
217,446	-	217,446
14,493	1,013	15,506
17,146	334,524	351,670
<u>\$ 362,170</u>	<u>383,786</u>	<u>745,956</u>

City of Granger

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 176,037	-	-
Tax increment financing	-	-	-
Other city tax	3,947	-	67,899
Licenses and permits	30,417	-	-
Use of money and property	6,828	-	-
Intergovernmental	35,590	48,812	-
Miscellaneous	42,553	36,993	-
Total receipts	295,372	85,805	67,899
Disbursements:			
Operating:			
Public safety	145,079	-	-
Public works	46,102	64,917	-
Culture and recreation	87,312	-	-
Community and economic development	65,555	-	-
General government	128,594	-	-
Debt service	-	12,500	-
Capital projects	-	-	-
Total disbursements	472,642	77,417	-
Excess (deficiency) of receipts over (under) disbursements	(177,270)	8,388	67,899
Other financing sources (uses):			
Project anticipation note proceeds	-	-	-
Operating transfers in	96,967	-	-
Operating transfers out	-	-	(65,518)
Total other financing sources (uses)	96,967	-	(65,518)
Net change in cash balances	(80,303)	8,388	2,381
Cash balances beginning of year	97,449	4,742	48,517
Cash balances end of year	\$ 17,146	13,130	50,898
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	17,146	-	-
Special revenue funds	-	13,130	50,898
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 17,146	13,130	50,898

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
113,601	-	-	289,638
-	-	51,176	51,176
2,382	-	-	74,228
-	-	-	30,417
-	-	-	6,828
-	-	-	84,402
-	640	6,695	86,881
115,983	640	57,871	623,570
-	-	-	145,079
-	-	10,000	121,019
-	-	1,519	88,831
-	-	-	65,555
-	-	-	128,594
51,761	-	60,916	125,177
-	183,194	-	183,194
51,761	183,194	72,435	857,449
64,222	(182,554)	(14,564)	(233,879)
-	400,000	-	400,000
-	-	19,740	116,707
(19,740)	-	-	(85,258)
(19,740)	400,000	19,740	431,449
44,482	217,446	5,176	197,570
4,575	-	8,305	163,588
49,057	217,446	13,481	361,158
49,057	-	-	49,057
-	-	-	17,146
-	-	13,481	77,509
-	217,446	-	217,446
49,057	217,446	13,481	361,158

City of Granger

City of Granger

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2006

Total governmental funds cash balances (page 17) \$ 361,158

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of funding of the City's vehicle replacement to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.

1,012

Cash basis net assets of governmental activities (page 15) \$ 362,170

Net change in cash balances (page 17) \$ 197,570

***Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of funding of the City's vehicle replacement to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

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Change in cash balances of governmental activities (page 15) \$ 197,575

See notes to financial statements.

Exhibit D

City of Granger

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise				Internal
	Water	Sewer	Nonmajor Garbage	Total	Service Vehicle Replacement
Operating receipts:					
Charges for service	\$ 201,308	161,978	39,982	403,268	-
Operating disbursements:					
Business type activities	82,959	106,982	39,086	229,027	-
Excess of operating receipts over operating disbursements	118,349	54,996	896	174,241	-
Non-operating receipts (disbursements):					
Interest on investments	3,600	3,123	-	6,723	10
Debt service	-	(48,128)	-	(48,128)	-
Total non-operating receipts (disbursements)	3,600	(45,005)	-	(41,405)	10
Excess of receipts over disbursements	121,949	9,991	896	132,836	10
Operating transfers out	-	(31,449)	-	(31,449)	-
Net change in cash balances	121,949	(21,458)	896	101,387	10
Cash balances beginning of year	107,429	173,357	600	281,386	2,015
Cash balances end of year	\$ 229,378	151,899	1,496	382,773	2,025
Cash Basis Fund Balances					
Reserved for debt service	\$ -	48,249	-	48,249	-
Unreserved	229,378	103,650	1,496	334,524	2,025
Total cash basis fund balances	\$ 229,378	151,899	1,496	382,773	2,025

See notes to financial statements.

City of Granger

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 20) \$ 382,773

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of funding of the City's vehicle replacement to individual funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statement of Activities and Net Assets.

1,013

Cash basis net assets of business type activities (page 15) \$ 383,786

Net change in cash balances (page 20) \$ 101,387

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of funding of the City's vehicle replacement to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

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Change in cash balances of business type activities (page 15) \$ 101,392

See notes to financial statements.

City of Granger

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Granger is a political subdivision of the State of Iowa located in Dallas and Polk Counties. It was first incorporated in 1885 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 garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Granger has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the city of Granger (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational relationship with the City.

Blended Component Unit

The Friends of the Granger Public Library (Friends) is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. Friends is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and collects donations which are used to purchase items not included in the City's budget. The financial transactions for Friends have been reported as a Special Revenue Fund of the City.

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: Dallas County Assessor's Conference Board, Dallas County Emergency Management Commission and Dallas County Joint E911 Service Board.

B. Basis of Presentation

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

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

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

Unrestricted net assets consist of net assets not meeting 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 and enterprise funds are aggregated and reported as nonmajor governmental and enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

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 utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

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

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

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 public works, culture and recreation, community and economic development, general government and capital projects functions.

(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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation					
	Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 95,000	43,592	29,000	18,777	124,000	62,369
2008	95,000	39,668	30,000	17,640	125,000	57,308
2009	110,000	36,307	31,000	16,464	141,000	52,771
2010	115,000	14,545	33,000	15,249	148,000	29,794
2011	105,000	9,915	34,000	13,955	139,000	23,870
2012 - 2016	140,000	9,238	189,000	48,883	329,000	58,121
2017 - 2019	-	-	133,000	10,544	133,000	10,544
Total	\$ 660,000	153,265	479,000	141,512	1,139,000	294,777

The resolution providing for the issuance of the revenue bonds includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the sinking account requirement shall be made to a sewer reserve account within the Enterprise Funds until a balance \$48,249 has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Project Anticipation Note

On June 1, 2006, the City issued a \$400,000 general obligation water supply improvement project anticipation note to pay the costs of a water supply and transmission line project. The note bears interest at 4.43% per annum and matures on June 1, 2009. The note will be repaid through issuance of long term revenue note debt. No interest was paid on the anticipation notes during the year ended June 30, 2006.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2006 was \$13,925, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time 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 and compensatory time payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation and compensatory time	\$ <u>14,700</u>

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

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 65,518
	Enterprise:	
	Sewer	<u>31,449</u>
		<u>96,967</u>
Special Revenue:	Debt Service	
Urban Renewal TIF		<u>19,740</u>
Total		<u>\$ 116,707</u>

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

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

(10) Litigation

The City is subject to pending litigation. The probability of loss, if any, is undeterminable.

(11) Subsequent Events

In September 2006, the City approved the purchase of a loader for \$41,427 to be paid from the Internal Service, Vehicle Replacement Fund.

City of Granger

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 289,638	-	-
Tax increment financing	51,176	-	-
Other city tax	74,228	-	-
Licenses and permits	30,417	-	-
Use of money and property	6,828	6,723	-
Intergovernmental	84,402	-	-
Charges for service	-	403,268	-
Miscellaneous	86,881	-	6,695
Total receipts	623,570	409,991	6,695
Disbursements:			
Public safety	145,079	-	-
Public works	121,019	-	-
Health and social services	-	-	-
Culture and recreation	88,831	-	1,519
Community and economic development	65,555	-	-
General government	128,594	-	-
Debt service	125,177	-	-
Capital projects	183,194	-	-
Business type activities	-	277,155	-
Total disbursements	857,449	277,155	1,519
Excess (deficiency) of receipts over (under) disbursements	(233,879)	132,836	5,176
Other financing sources, net	431,449	(31,449)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	197,570	101,387	5,176
Balances beginning of year	163,588	281,386	8,305
Balances end of year	\$ 361,158	382,773	13,481

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
289,638	290,688	290,688	(1,050)
51,176	55,000	55,000	(3,824)
74,228	76,921	6,921	67,307
30,417	40,000	47,500	(17,083)
13,551	35,725	63,648	(50,097)
84,402	103,947	103,947	(19,545)
403,268	288,320	328,490	74,778
80,186	-	93,060	(12,874)
<u>1,026,866</u>	<u>890,601</u>	<u>989,254</u>	<u>37,612</u>
145,079	157,894	157,894	12,815
121,019	81,825	81,825	(39,194)
-	2,500	2,500	2,500
87,312	77,614	77,614	(9,698)
65,555	60,000	60,000	(5,555)
128,594	79,010	79,010	(49,584)
125,177	184,828	184,828	59,651
183,194	-	163,304	(19,890)
277,155	292,398	342,398	65,243
<u>1,133,085</u>	<u>936,069</u>	<u>1,149,373</u>	<u>16,288</u>
(106,219)	(45,468)	(160,119)	53,900
400,000	-	(23,060)	423,060
293,781	(45,468)	(183,179)	476,960
436,669	109,390	193,610	243,059
<u>730,450</u>	<u>63,922</u>	<u>10,431</u>	<u>720,019</u>

City of Granger

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 the Internal Service Fund and the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the 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, one budget amendment increased budgeted disbursements by \$213,304. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government and capital projects functions.

Other Supplementary Information

City of Granger

City of Granger

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

As of and for the year ended June 30, 2006

	Special Revenue		
	Urban Renewal TIF	Friends of the Library	Total
Receipts:			
Tax increment financing	\$ 51,176	-	51,176
Miscellaneous	-	6,695	6,695
Total receipts	51,176	6,695	57,871
Disbursements:			
Operating:			
Public works	10,000	-	10,000
Culture and recreation	-	1,519	1,519
Debt service	60,916	-	60,916
Total disbursements	70,916	1,519	72,435
Excess (deficiency) of receipts over (under) disbursements	(19,740)	5,176	(14,564)
Other financing sources:			
Operating transfers in	19,740	-	19,740
Net change in cash balances	-	5,176	5,176
Cash balances beginning of year	-	8,305	8,305
Cash balances end of year	\$ -	13,481	13,481
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ -	13,481	13,481

See accompanying independent auditor's report.

City of Granger
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Broadway street extension	Jan 1, 1995	5.65-7.00%	\$ 120,000
Essential corporate purpose	Nov 1, 1998	3.90-4.80	150,000
Water booster station	Apr 15, 2003	3.10-5.00	220,000
State street culvert	Oct 1, 2003	3.00-5.00	260,000
Refunding	Nov 1, 2003	1.40-3.70	220,000
Total			
Revenue bonds:			
Wastewater treatment facility	Sep 30, 1999	3.92%	\$ 655,000
General obligation project anticipation notes:			
Water supply	Jun 1, 2006	4.43%	\$ 400,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
55,000	-	10,000	45,000	3,765
110,000	-	10,000	100,000	4,972
190,000	-	15,000	175,000	7,350
230,000	-	30,000	200,000	8,525
170,000	-	30,000	140,000	5,055
<u>\$ 755,000</u>	<u>-</u>	<u>95,000</u>	<u>660,000</u>	<u>29,667</u>
<u>507,000</u>	<u>-</u>	<u>28,000</u>	<u>479,000</u>	<u>19,874</u>
<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>-</u>

City of Granger
Bond and Note Maturities
June 30, 2006

Year Ending June 30,	General Obligation Notes					
	Broadway Street Extension		Essential Corporate Purpose		Water Booster Station	
	Issued Jan 1, 1995		Issued Nov 1, 1998		Issued Apr 15, 2003	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	6.75%	\$ 10,000	4.25%	\$ 10,000	5.00%	\$ 20,000
2008	6.75	10,000	4.30	10,000	3.10	20,000
2009	6.75	10,000	4.40	10,000	3.30	25,000
2010	7.00	15,000	4.45	10,000	3.50	25,000
2011		-	4.55	15,000	3.70	25,000
2012		-	4.65	15,000	3.85	30,000
2013		-	4.75	15,000	4.00	30,000
2014		-	4.80	15,000		-
2015		-		-		-
2016		-		-		-
2017		-		-		-
2018		-		-		-
2019		-		-		-
Total		<u>\$ 45,000</u>		<u>\$ 100,000</u>		<u>\$ 175,000</u>

See accompanying independent auditor's report.

State Street Culvert Issued Oct 1, 2003		Refunding Issued Nov 1, 2003			Revenue Bonds Wastewater Treatment Facility Issued Sep 30, 1999	
Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount
4.00%	\$ 30,000	2.50%	\$ 25,000	95,000	5.30%	\$ 29,000
3.00	30,000	2.90	25,000	95,000	5.30	30,000
3.25	35,000	3.15	30,000	110,000	5.30	31,000
3.50	35,000	3.45	30,000	115,000	5.30	33,000
3.75	35,000	3.70	30,000	105,000	5.30	34,000
4.00	35,000		-	80,000	5.30	35,000
	-		-	45,000	5.30	36,000
	-		-	15,000	5.30	38,000
	-		-	-	5.30	39,000
	-		-	-	5.30	41,000
	-		-	-	5.30	43,000
	-		-	-	5.30	44,000
	-		-	-	5.30	46,000
	<u>\$ 200,000</u>		<u>\$ 140,000</u>	<u>660,000</u>		<u>\$ 479,000</u>

City of Granger



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Granger, 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 October 3, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, 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 Granger's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Granger'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 items (A), (C), (D) and (F) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Granger's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

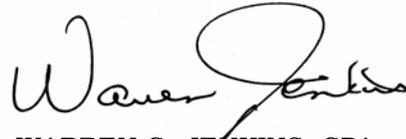
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Granger and other parties to whom the City of Granger 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 Granger 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 3, 2006

City of Granger

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling petty cash, reconciling and depositing.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – receiving, recording and custody.
- (6) Utility receipts – billing, collecting, depositing and posting.
- (7) Disbursements – purchasing, preparing checks and recording.
- (8) Payroll – preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The Finance Committee issues a written report each month to the Council to document an independent review of some of the items listed. We will consider the recommendation.

Conclusion – Response acknowledged. The Finance Committee needs to review, initial, date and approve the above activities on a timely basis, which could be daily and/or monthly, whichever is appropriate.

(B) Investments – Although copies of investment renewal notices were retained, the City did not maintain an investment register.

Recommendation – A complete detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate, amount of principal and interest received.

Response – The Clerk will prepare a register of investments each month.

Conclusion – Response accepted.

City of Granger

Schedule of Findings

Year ended June 30, 2006

- (C) Financial Accounting and Reporting – The City Clerk submits monthly financial reports to the Council containing fund balances, receipts, disbursements, transfers and budget comparisons. However, the monthly fund balances did not include investments and transfers in/out for each of the funds.

The monthly financial report of fund balances did not reconcile to the bank balances.

Recommendation – The monthly financial reports of individual fund should include investments in the fund balances and two columns should be added to include transfers in and out for each fund.

The monthly financial report of fund balances should be reconciled to the bank balance and include all reconciling items.

Response – We will prepare a monthly report that will properly identify fund balances and reconcile with bank balances.

Conclusion – Response accepted.

- (D) Interfund Transfers – The City Clerk made adjustments to ending fund balances at June 30, 2006 by making transfers between funds. The transfers were not approved in the Council minutes and the purpose of the transfer is not documented.

Recommendation – Except as authorized by the City Council through the budgetary process, transfers between funds should only be made upon the authority of the City Council through resolution detailing the amounts to be transferred to/from the funds involved, along with the reason for each transfer.

Response – We will add to Finance Committee report for their approval and will submit to the Council for approval.

Conclusion – Response accepted.

- (E) Financial Reporting Software – The City has purchased accounting software for financial reporting, but has not used it.

Recommendation – To strengthen the control over the accountability of receipts and disbursements, the City should use its financial accounting software. When used properly, the software will record transactions according to the uniform coding system for cities, making it easier for the Clerk to prepare financial reports. The software will also make the accounting records more reliable and will give the Council better control over budgeted disbursements.

Response – We will begin using the computer financial software.

Conclusion – Response accepted.

City of Granger

Schedule of Findings

Year ended June 30, 2006

- (F) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will prepare a reconciliation that shows utility billings reconciled with collections and delinquents.

Conclusion – Response accepted.

- (G) Receipts – The City did not issue prenumbered receipts for all collections.

Recommendation – Prenumbered receipts should be issued for all collections, including receipts deposited directly to the bank account.

Response – We will issue prenumbered receipts for all collections.

Conclusion – Response accepted.

- (H) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- A disaster recovery plan.
- Requiring backup tapes be stored off-site.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response – We will work with the Finance Committee to develop written policies addressing these items.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Granger

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended 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.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) 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 the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, a summary of all receipts and disbursements by fund was not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish a summary of all receipts and disbursements by fund as required by the Code of Iowa.

Response – We will begin to publish this additional information immediately.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Granger

Schedule of Findings

Year ended June 30, 2006

- (8) Sewer Revenue Bonds – The City has complied with the revenue bond resolution, except as noted below.

The sewer bond resolution requires “the books and accounts to be audited annually and reported upon not later than 180 days after the end of each fiscal year.” The City has not obtained an audit since 2001.

Recommendation – The City should contact bond counsel to determine the disposition of this matter.

Response – We will contact bond counsel to determine if this will be required.

Conclusion - Response accepted.

- (9) Payment of General Obligation Notes – Certain general obligation notes were paid from the Special Revenue, Road Use Tax and Urban Renewal TIF Funds. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Special Revenue, Road Use Tax and Urban Renewal TIF Funds to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended and pay all general obligation debt from the Debt Service Fund.

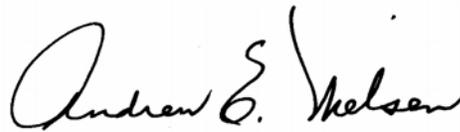
Conclusion – Response accepted.

City of Granger

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Bryan M. Walker, Auditor Intern

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State