

**CITY OF GRAETTINGER, IOWA**

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

**YEAR ENDED JUNE 30, 2006**

City of Graettinger, Iowa

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**City of Graettinger, Iowa**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Mark Hunefeld	Mayor	Jan 2006
Wayne Anderson	Mayor Pro Tem	Jan 2006
Mike Flaherty	Council Member	Jan 2006
Ken Smith	Council Member	Jan 2006
Lorraine Koekenhoff	Council Member	Jan 2008
LeAnn Dietrich	Council Member	Jan 2008
<b>(After January 2006)</b>		
Kevin Hanson	Mayor	Jan 2008
Ken Smith	Mayor Pro Tem	Jan 2010
Daniel Skattebo	Council Member	Jan 2008
LeAnn Dietrich	Council Member	Jan 2008
Wayne Anderson	Council Member	Jan 2010
Mike Flaherty	Council Member	Jan 2010
Sandra Henderson	Clerk/Treasurer	Indefinite
John D. Brown	Attorney	Indefinite

## 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 Graettinger, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Graettinger'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.

The financial statements referred to above include only the primary government of the City of Graettinger, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to,

and do not, present fairly the cash basis financial position of the reporting entity of the City of Graettinger, Iowa as of June 30, 2006 and the changes in cash basis financial position for the year then ended in conformity with 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 for the primary government of the City of Graettinger 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 July 27, 2006 on our consideration of the City of Graettinger'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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 24 through 26 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 Graettinger's primary government's basic financial statements. Other supplementary information included in Schedules 1 through 4 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.

Cornwell, Frideres, Maher & Associates, P.C.  
Certified Public Accountants

July 27, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Graettinger's Annual Financial Report presents the Management's Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2006. Because the City of Graettinger is implementing new reporting standards for this fiscal year with the significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental and business type activities were approximately \$1,577,000. Property taxes stayed about the same at \$159,204 at \$11.85 per thousand evaluations.
- Disbursements of the City's governmental and business type activities were approximately \$1,521,000. An increase in disbursements was due to the high cost of gas plus a capital project for the sanitary sewer of \$221,858.
- The city's total cash basis net assets increased approximately \$55,900 from June 30, 2005.
- Total debt increased by \$257,500 during the 2005-2006 fiscal year. Of this amount, governmental activities retired \$53,500 of debt and business type activities issued new debt of \$330,000, while retiring \$19,000.

### USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

- **Management's Discussion and Analysis** – introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- **Government-wide Financial Statements** – consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and represent an overall view of the City's finances.
- **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 statements by providing information about the most significant funds.
- **Notes to Financial Statements** – provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- **Required Supplementary Information** – further explains and supports the financial statements by showing budgetary comparisons.
- **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 statement 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 Statements

One of the most important questions asked about the City's finances is "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. The statements report the City's net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities are divided into two activities:

- **Governmental Activities** – Most of the City's basic services are reported here. They 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** – This activity includes the Waterworks, the Sanitary Sewer System, and the Gas Utility. These activities are financed primarily by user charges.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three kinds of funds:

- **Governmental Funds** – These funds account for most of the City's basic services. The accounts focus on how money flows into and out of those funds and the balances at year-end that is available for spending. The governmental funds include 1) General Fund; 2) Special Revenue Funds, such as Road Use, Trust and Agency and TIF; 3) Debt Service Fund; and 4) 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 financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.
- **Proprietary Funds** – The Proprietary Funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. The Enterprise Funds include the Water, Sewer, and Gas, of which Water and Gas are considered major funds of the City. The financial statements for proprietary funds are a statement of cash receipts, disbursements and charges in cash balances.
- **Fiduciary Funds** – The City is the trustee for assets that belong to others.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets for government activities as of June 30, 2006.

<u>Cash Basis net Assets of Government Activities</u>	
	<u>Year ended June 30</u>
	2006
Receipts and transfers:	
Property tax	
Tax increment financing collections	159,204
Other City Tax	28,721
Licenses and permits	4,983
Use of money and property	5,330
Intergovernmental	100,709
Charges for service	80,632
Miscellaneous	37,543
Total receipts	<u>470,370</u>
Disbursements:	
Operating:	
Public Safety	45,871
Public works	171,827
Culture and recreation	109,641
Community and economic development	48,806
General Government	46,655
Debt Service	56,444
Total disbursements	<u>479,244</u>
Excess (deficiency) of receipts over (under) disbursements	(8,874)
Other financing sources (uses):	
Sale of capital assets	100
Operating transfers in	80,094
Operating transfers out	(60,094)
Total other financing sources (uses)	<u>20,100</u>
Net change in cash balances	11,226
Cash balances beginning of year	<u>125,163</u>
Cash balances end of year	<u>136,389</u>
<b>Cash Basis Fund balances</b>	
Unreserved:	
General fund	84,334
Special revenue funds	52,055
Total cash basis fund balances	<u>136,389</u>

The city's total receipts for governmental activities was \$470,370, which included \$159,204 property taxes, \$28,721 tax increment financing, \$100,709 intergovernmental which includes road use money and \$80,632 for Charges of services for solid waste collection and fees collected for the Graettinger Municipal Swimming Pool.

The city's total disbursement were \$479,244 which includes Public Safety of 45,871 for police protection, Public Works of \$171,827 for street work, garbage service and street lighting, Culture and recreation of \$109,641 for library, parks pool and cemetery expense, Community and economic development of \$48,806 for economic development for housing incentives and payment to Economic development for improvements in the development park, General Government of \$46,655 for administration, city buildings and tort liability. The Debt Service fund was \$56,444 for bond payment for the Municipal Swimming pool bond and final payment for TIF bond for the \$100,000 loan for the Boys and Girls home.

The following analysis shows the City's total net assets for business type activities as of June 30, 2006.

Cash basis net assets of Business Type Activities

	Sewer	Gas	Water	Total
Operating Receipts:				
Charges for Service	\$100,830	683,352	83,215	867,397
Miscellaneous	260		6,255	6,515
Total Operating Receipts	101,090	683,352	89,470	873,912
Operating disbursements:				
Business type activities	41,973	635,382	106,323	783,678
Total operating disbursements	41,973	635,382	106,323	783,678
Excess (deficiency) of receipts over (under) disbursements	59,117	47,970	(16,823)	90,234
Non-operating receipts (disbursements)				
Interest on investments	2,625	6,828	3,618	13,071
Miscellaneous	3,386			3,386
Loan Proceeds	216,073			216,073
Debt Service	(36,323)			(36,323)
Capital Projects	(221,858)	-		(221,858)
Total non-operating receipts (disbursements)	(36,006)	6,828	3,618	(25,560)
Excess (deficiency) of receipts over (under) disbursements	23,111	54,798	(13,235)	64,674
Operating transfers out		(20,000)		(20,000)
Net change in cash balances	23,111	34,798	(13,235)	44,674
Cash balances beginning of year	74,854	239,338	130,085	444,277
Cash balances end of year	\$97,965	274,136	116,850	488,951
<b>Cash Bases Fund Balances</b>				
Reserved				
Debt Service	41,643			41,643
Improvements		60,000		60,000
Meter Deposits			11,876	11,876
Unreserved	56,322	214,316	104,974	375,342
Total cash basis fund balances	\$97,965	274,136	116,850	488,951

Total business type activities receipts for fiscal year 2005-2006 was \$873,912 and total operating disbursements were \$783,678 increasing cash balances in the water, sewer and gas by \$90,234.

**INDIVIDUAL GOVERNMENTAL FUND ANALYSIS**

At June 30, 2006, the City of Graettinger's governmental funds reported a total fund balance of \$136,389. The following are main reasons for the changes in fund balances of selected governmental funds from the prior year.

- **General Fund** - The General Fund (operating fund for the City of Graettinger), ended FY06 with a \$84,334 balance. An increase is due to an increase in revenues and decrease in overall spending within each program in the general fund.
- **Road Use Fund** - The Road Use Fund accounts for revenue received from the State of Iowa for street purposes. The Road Use Fund ended FY06 with a \$20,452 balance. This fund balance did not change over last fiscal year.

- ***Tax Increment Financing Fund*** – The Tax Increment Financing Fund accounts for proceeds from the tax authorized by ordinance in the urban renewal district, which are used to pay the principal and interest on indebtedness incurred for urban renewal projects. This fund ended FY06 with a \$2,826.
- ***Debt Service Fund*** – The Debt Service Fund ended FY06 with a \$0 balance. Funds for the debt service is transferred from local option sales tax to pay for debt of the General Obligation bond for the new swimming pool.
- ***Local Option Sales Tax Fund***–The Local Option Sales Tax Fund ended FY06 with a \$15,544 balance. These funds are used to pay for the Debt for the new swimming pool.

**INDIVIDUAL BUSINESS TYPE FUND ANALYSIS**

- **Water Fund** - The Water Fund, which accounts for the operation of the City’s water system, ended FY06 with a \$104,974. This decrease for this fiscal year was due to the drilling of a new well.
- **Sewer Fund** - The Sewer Fund, which accounts for the operation of the City’s wastewater treatment and sanitary sewer system, ended FY06 with a \$56,322 balance. There was an increase in this fund due to additional revenue generated from the payment of sanitary sewer.
- **Sewer Sinking Fund**- The Sewer Sinking Fund, which accounts for the operation of the payment for revenue bonds for the Sanitary Sewer System has a balance of \$11,643.
- **Sewer Reserve Fund**- The Sewer Reserve Fund, which accounts for reserves for payment of revenue bonds for the Sanitary Sewer System has a required balance of \$30,000.
- **Gas Fund** - The Gas Fund, which accounts for the operation of the municipal gas utility, ended FY06 with a \$214,136 balance. The gas utility also has a Gas improvement fund balance of \$60,000 to be used for improvements to the system.

**BUDGETARY HIGHLIGHTS**

During the fiscal year ending June 30, 2006, the City amended its budget twice. The amendment was approved in March 2006. The amendment provided for additional disbursements due to power and fuel cost increases. The second amendment was approved in June 2006 due to a capital project for the sanitary sewer system.

**DEBT ADMINISTRATION**

**Long-Term Debt**

At June 30, 2006, the City of Graettinger has approximately \$959,500 in bonds and long-term debt.  
 Outstanding Debt at June 30, 2006

General Obligation Bonds	
Pool and grader- April 15, 2006	\$273,500
Revenue Bonds:	
Sewer Revenue July 5, 1995	207,000
Sewer Revenue January 10, 2005	329,000
Urban renewal tax increment (TIF)	
EPS June 23, 2005	150,000

- The City had \$273,500 in general obligation bonds/notes outstanding as of June 30, 2006. The general obligation bonds were issued to pay for the new swimming pool and grader.
- The City had \$536,000 in total revenue bonds/notes outstanding as of June 30, 2006. The revenue bonds were issued to pay for the construction of the sewer lagoon and sanitary sewer lining projects.
- The City had \$150,000 in total tax increment financing loans outstanding as of June 30, 2006. The TIF bonds were used for expansion of Energy Panel Structures.
- 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 \$273,500 is significantly below its constitutional debt limit of \$1,168,369.

**ECONOMIC FACTORS**

The City of Graettinger's elected and appointed officials and department heads considered many factors when setting the FY06 budget, tax rates and fees that will be charged for various City services and activities. There were no major changes to the expected revenues.

The tax levy rates per \$1,000 of taxable valuation for FY06 are provided below:

FY06 Levy Rates	
General Levy Rate	\$ 7.49250
Insurance	.74592
Employee Benefits	3.13286
Support local Emg Mgmt Com	.21632
Emergency	.27000
Total	\$ 11.85760

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact City Clerk, City of Graettinger, 106 S. Cedar Avenue, PO Box 418, Graettinger, Iowa 51342 or call (712) 859-3359.

## **Basic Financial Statements**

City of Graettinger, Iowa  
Statement of Activities and Net Assets - Cash Basis  
As of and for the year ended June 30, 2006

		Program Receipts		
<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>	
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 45,871	-	-	-
Public works	171,827	55,755	75,353	-
Culture and recreation	109,641	30,902	30,112	-
Community and economic development	48,806	3,450	-	-
General government	46,655	13,257	1,921	-
Debt service	56,444	-	-	-
Total governmental activities	479,244	103,364	107,386	-
Business type activities:				
Sewer	300,064	104,477	-	-
Gas	635,382	683,354	-	-
Nonmajor	106,323	89,469	-	-
Total business type activities	1,041,769	877,300	-	-
Total	\$ 1,521,013	980,664	107,386	-

**General Receipts:**

Property and other city tax levied for:	
General purposes	
Tax increment financing	
Local option sales tax	
Grants and contributions not restricted to specific purpose	
Unrestricted interest on investments	
Loan proceeds	
Miscellaneous	
Sale of assets	
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	
Urban renewal purposes	
Debt service	
Other purposes	
Unrestricted	
<b>Total cash basis net assets</b>	

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(45,871)	-	(45,871)
(40,719)	-	(40,719)
(48,627)	-	(48,627)
(45,356)	-	(45,356)
(31,477)	-	(31,477)
<u>(56,444)</u>	<u>-</u>	<u>(56,444)</u>
<u>(268,494)</u>	<u>-</u>	<u>(268,494)</u>
-	(195,587)	(195,587)
-	47,972	47,972
-	<u>(16,855)</u>	<u>(16,855)</u>
<u>-</u>	<u>(164,469)</u>	<u>(164,469)</u>
<u>(268,494)</u>	<u>(164,469)</u>	<u>(432,964)</u>
160,484	-	160,484
28,721	-	28,721
51,967	-	51,967
13,119		13,119
4,946	13,070	18,016
-	216,073	216,073
383	-	383
100	-	100
<u>20,000</u>	<u>(20,000)</u>	<u>-</u>
<u>279,720</u>	<u>209,143</u>	<u>488,863</u>
11,226	44,673	55,900
<u>125,163</u>	<u>444,277</u>	<u>569,441</u>
<u>\$ 136,389</u>	<u>488,950</u>	<u>625,339</u>
\$ 20,452	-	20,452
2,826	-	2,826
-	41,643	41,643
28,777		28,777
<u>84,334</u>	<u>447,308</u>	<u>531,642</u>
<u>\$ 136,389</u>	<u>488,951</u>	<u>625,340</u>

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

As of and for the year ended June 30, 2006

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 113,503	45,701	159,204
Tax increment financing	-	28,721	28,721
Other city tax	906	52,342	53,248
Licenses and permits	4,983	-	4,983
Use of money and property	3,500	1,830	5,330
Intergovernmental	25,356	75,353	100,709
Charges for service	77,182	3,450	80,632
Miscellaneous	37,543	-	37,543
Total receipts	<u>262,973</u>	<u>207,397</u>	<u>470,370</u>
Disbursements:			
Operating:			
Public safety	45,871	-	45,871
Public works	85,954	85,873	171,827
Culture and recreation	89,839	19,802	109,641
Community and economic development	1,163	47,643	48,806
General government	39,590	7,065	46,655
Debt service	-	56,444	56,444
Total disbursements	<u>262,417</u>	<u>216,827</u>	<u>479,244</u>
Excess (deficiency) of receipts over (under) disbursements	<u>556</u>	<u>(9,430)</u>	<u>(8,874)</u>
Other financing sources (uses):			
Sale of capital assets	100	-	100
Operating transfers in	23,650	56,444	80,094
Operating transfers out	(10,000)	(50,094)	(60,094)
Total other financing sources (uses)	<u>13,750</u>	<u>6,350</u>	<u>20,100</u>
Net change in cash balances	14,306	(3,080)	11,226
Cash balances beginning of year	70,028	55,135	125,163
Cash balances end of year	<u>\$ 84,334</u>	<u>52,055</u>	<u>136,389</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 84,334	-	84,334
Special revenue funds	-	52,055	52,055
Capital project funds	-	-	-
Total cash basis fund balances	<u>\$ 84,334</u>	<u>52,055</u>	<u>136,389</u>

See notes to financial statements.

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

As of and for the year ended June 30, 2006

	Enterprise Funds			
	<u>Sewer</u>	<u>Gas</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 100,830	683,352	83,215	867,397
Miscellaneous	<u>260</u>	<u>-</u>	<u>6,255</u>	<u>6,515</u>
Total operating receipts	<u>101,090</u>	<u>683,352</u>	<u>89,471</u>	<u>873,912</u>
Operating disbursements:				
Business type activities	<u>41,973</u>	<u>635,382</u>	<u>106,323</u>	<u>783,679</u>
Total operating disbursements	<u>41,973</u>	<u>635,382</u>	<u>106,323</u>	<u>783,679</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>59,117</u>	<u>47,970</u>	<u>(16,853)</u>	<u>90,234</u>
Non-operating receipts (disbursements):				
Interest on investments	2,625	6,828	3,618	13,071
Miscellaneous	3,386	-	-	3,386
Loan proceeds	216,073	-	-	216,073
Debt service	(36,232)	-	-	(36,232)
Capital projects	<u>(221,858)</u>	<u>-</u>	<u>-</u>	<u>(221,858)</u>
Total non-operating receipts (disbursements)	<u>(36,006)</u>	<u>6,828</u>	<u>3,618</u>	<u>(25,560)</u>
Excess (deficiency) of receipts over (under) disbursements	23,111	54,798	(13,235)	64,674
Operating transfers out	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Net change in cash balances	23,111	34,798	(13,235)	44,674
Cash balances beginning of year	<u>74,854</u>	<u>239,338</u>	<u>130,085</u>	<u>444,277</u>
Cash balances end of year	<u>\$ 97,965</u>	<u>274,136</u>	<u>116,850</u>	<u>488,951</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt Service	41,643	-	-	41,643
Improvements	-	60,000	-	60,000
Meter deposits			11,876	11,876
Unreserved	<u>56,322</u>	<u>214,136</u>	<u>104,974</u>	<u>375,432</u>
Total cash basis fund balances	<u>\$ 97,965</u>	<u>274,136</u>	<u>116,850</u>	<u>488,951</u>

See notes to financial statements.

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

As of and for the year ended June 30, 2006

	<u>Miscellaneous Trust Funds</u>
<b>Additions:</b>	
Interest	\$ 443
Contributions	<u>1,785</u>
Total additions	<u>2,228</u>
 <b>Deductions:</b>	
Total deductions	<u>5,185</u>
Change in net assets	(2,957)
Net assets - beginning of the year	<u>26,610</u>
Net assets - end of the year	<u><u>\$ 23,653</u></u>

See notes to financial statements.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Graettinger is a political subdivision of the State of Iowa located in Palo Alto County. It was first incorporated in 1893 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 and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Graettinger has included only the primary government of the City of Graettinger, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

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: Palo Alto County Emergency Management Commission and Palo Alto County Joint E911 Service Board.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

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 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 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 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 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 other nonmajor governmental funds.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

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 that are not paid from other funds.

The City reports the following major proprietary funds:

The Gas Fund is used to account for the operation and maintenance of the City's gas 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 fiduciary funds which focus on net assets and changes in net assets.

C. Measurement Focus and Basis of Accounting

The City of Graettinger 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.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

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 did not exceed the amounts budgeted.

(2) **Cash**

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.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue bonds are as follows:

Year Ending	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 21,500	11,624	12,000	6,750	20,000	15,630	53,500	34,004
2008	31,500	10,710	12,000	6,210	21,000	15,045	64,500	31,965
2009	31,500	9,371	13,000	5,675	22,000	14,415	66,500	29,461
2010	31,500	8,032	14,000	5,085	23,000	13,755	68,500	26,872
2011	31,500	6,694	15,000	4,455	24,000	13,065	70,500	24,214
2012-2016	126,000	13,388	84,000	11,565	137,000	54,330	347,000	79,283
2017-2021	---	---	---	---	157,000	33,870	157,000	33,870
2022-2025	---	---	---	---	132,000	9,690	132,000	9,690
Total	\$ 273,500	59,819	150,000	39,740	536,000	169,800	959,500	269,359
	=====	=====	=====	=====	=====	=====	=====	=====

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

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

- (a) The bonds will only be redeemed from the future net revenues of the municipal sanitary sewer system of the City, a sufficient portion of which has been ordered set aside and pledged for that purpose.

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

- (b) Monthly transfers shall be made to the Sewer Revenue Sinking Fund in the amount of one-sixth of the semi-annual interest payment and one-twelfth of the next annual principal payment for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers from the net revenues of the utility, after making the required payments into the sinking fund, are to be made to the Sewer Revenue Bond Reserve Fund of an amount equal to the amount required to the sinking fund until specific minimum balances have been accumulated. This account is to be used solely for the purpose of paying principal or interest on the bond for which insufficient money is available in the sinking fund.
- (d) All net revenues remaining, after first making the required payments into the sinking fund and the reserve fund and after the reserve fund contains the required balance, are to be transferred to the Sewer Revenue Bond Surplus Fund. As long as both the sinking fund and the reserve fund have the full amounts required to be deposited therein, any balance in the surplus fund may be made available to the City as the Council, may from time to time direct.
- (e) The waste water treatment system shall maintain net revenues at a level not less than 110% of the amount of principle and interest on the revenue bonds.

**(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 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 contribution to IPERS for the year ended June 30, 2006 was \$9,486 equal to the required contributions for the year.

City of Graettinger, Iowa  
Notes to Financial Statements  
June 30, 2006

**(5) Compensated Absences**

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,875 =====

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

**(6) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 3,650
	Enterprise:	
	Gas	<u>20,000</u>
		<u>23,650</u>
Debt Service:	General	10,000
	Special Revenue:	
	Local Option Sales Tax	<u>46,444</u>
		<u>56,444</u>
Total		\$ 80,094 =====

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

City of Graettinger, Iowa

Notes to Financial Statements

June 30, 2006

**(7) 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.

## **Required Supplementary Information**

City of Graettinger, Iowa  
 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 <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 159,204	-
Tax increment financing collections	28,721	-
Other city tax	53,248	-
Licenses and permits	4,983	-
Use of money and property	5,330	13,071
Intergovernmental	100,709	-
Charges for service	80,632	867,397
Miscellaneous	37,543	9,901
Total receipts	<u>470,370</u>	<u>890,369</u>
Disbursements:		
Public safety	45,871	-
Public works	171,827	-
Culture and recreation	109,641	-
Community and economic development	48,806	-
General government	46,655	-
Debt service	56,444	-
Capital projects	-	-
Business type activities	-	1,041,768
Total disbursements	<u>479,244</u>	<u>1,041,768</u>
Excess (deficiency) of receipts over (under) disbursements	(8,874)	(151,399)
Other financing sources, net	<u>20,100</u>	<u>196,073</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	11,226	44,674
Balances beginning of year	<u>125,163</u>	<u>444,277</u>
Balances end of year	<u>\$ 136,389</u>	<u>488,951</u>

See accompanying independent auditor's report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
159,204	157,909	157,909	1,295
28,721	30,000	33,450	(4,729)
53,248	47,166	47,166	6,082
4,983	2,860	2,860	2,123
18,401	31,000	32,500	(14,099)
100,709	103,055	379,669	(278,960)
948,029	823,700	1,029,200	(81,171)
47,444	6,900	32,286	15,158
<u>1,360,739</u>	<u>1,202,590</u>	<u>1,715,040</u>	<u>(354,301)</u>
45,871	49,230	49,230	3,359
171,827	200,311	204,411	32,584
109,641	101,767	120,767	11,126
48,806	25,000	85,000	36,194
46,655	47,167	47,167	512
56,444	62,840	73,290	16,846
-	35,000	35,000	35,000
1,041,768	804,384	1,205,384	163,616
<u>1,521,012</u>	<u>1,325,699</u>	<u>1,820,249</u>	<u>299,237</u>
(160,273)	(123,109)	(105,209)	(55,064)
<u>216,173</u>	<u>-</u>	<u>(3)</u>	<u>216,176</u>
55,900	(123,109)	(105,212)	161,112
<u>569,440</u>	<u>1,434,307</u>	<u>1,479,195</u>	<u>(909,755)</u>
<u>625,340</u>	<u>1,311,198</u>	<u>1,373,983</u>	<u>(748,643)</u>

City of Graettinger, Iowa

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 Internal Service Funds and 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. 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 Funds, the Permanent 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, two budget amendments increased budgeted disbursements by \$494,550. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

## **Other Supplementary Information**

City of Graettinger, Iowa

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			
	Road Use <u>Tax</u>	Employee Benefits	Emergency	Local Option <u>Sales Tax</u>
Receipts:				
Property tax	\$ -	42,081	3,620	-
Tax increment financing collections	-	-	-	-
Other city tax	-	345	30	51,967
Use of money and property	-	-	-	958
Intergovernmental	75,353	-	-	-
Charges for service	-	-	-	-
Total receipts	<u>75,353</u>	<u>42,426</u>	<u>3,650</u>	<u>52,925</u>
Disbursements:				
Operating:				
Public works	69,160	16,713	-	-
Culture and recreation	-	19,802	-	-
Community and economic development	-	-	-	-
General government	-	7,065	-	-
Debt service	-	-	-	-
Total disbursements	<u>69,160</u>	<u>43,580</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>6,193</u>	<u>(1,154)</u>	<u>3,650</u>	<u>52,925</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	(3,650)	(46,444)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(3,650)</u>	<u>(46,444)</u>
Net change in cash balances	6,193	(1,154)	-	6,481
Cash balances beginning of year	14,259	14,387	-	9,063
Cash balances end of year	<u>\$ 20,452</u>	<u>13,233</u>	<u>-</u>	<u>15,544</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	<u>\$ 20,452</u>	<u>13,233</u>	<u>-</u>	<u>15,544</u>
Total cash basis fund balances	<u>\$ 20,452</u>	<u>13,233</u>	<u>-</u>	<u>15,544</u>

See accompanying independent auditor's report.

Schedule 1

<u>TIF</u>	<u>Debt Service</u>	<u>Total</u>
-	-	45,701
28,721	-	28,721
-	-	52,342
872	-	1,830
-	-	75,353
3,450	-	3,450
<u>33,043</u>	<u>-</u>	<u>207,397</u>
-	-	85,873
-	-	19,802
47,643	-	47,643
-	-	7,065
-	56,444	56,444
<u>47,643</u>	<u>56,444</u>	<u>216,827</u>
<u>(14,600)</u>	<u>(56,444)</u>	<u>(9,430)</u>
-	56,444	56,444
-	-	(50,094)
-	56,444	6,350
(14,600)	-	(3,080)
17,426	-	55,135
<u>2,826</u>	<u>-</u>	<u>52,055</u>
<u>2,826</u>	<u>-</u>	<u>52,055</u>
<u>2,826</u>	<u>-</u>	<u>52,055</u>

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

As of and for the year ended June 30, 2006

	Enterprise Funds		
	<u>Water</u>	<u>Customer Deposit</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 83,215	-	83,215
Miscellaneous	996	5,259	6,255
Total operating receipts	<u>84,211</u>	<u>5,259</u>	<u>89,470</u>
Operating disbursements:			
Business type activities	<u>103,243</u>	<u>3,080</u>	<u>106,323</u>
Total operating disbursements	<u>103,243</u>	<u>3,080</u>	<u>106,323</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(19,032)</u>	<u>2,179</u>	<u>(16,853)</u>
Non-operating receipts:			
Interest on investments	<u>3,235</u>	<u>383</u>	<u>3,618</u>
Total non-operating receipts	<u>3,235</u>	<u>383</u>	<u>3,618</u>
Excess (deficiency) of receipts over (under) disbursements	(15,797)	2,562	(13,235)
Cash balances beginning of year	<u>120,771</u>	<u>9,314</u>	<u>130,085</u>
Cash balances end of year	<u>\$ 104,974</u>	<u>11,876</u>	<u>116,850</u>
<b>Cash Basis Fund Balances</b>			
Reserved:			
Meter deposits	\$ -	11,876	11,876
Unreserved	<u>104,974</u>	<u>-</u>	<u>104,974</u>
Total cash basis fund balances	<u>\$ 104,974</u>	<u>11,876</u>	<u>116,850</u>

See accompanying independent auditor's report.

City of Graettinger, Iowa  
 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:			
Pool and Grader	Apr 15, 2006	4.25 %	\$ 315,000
Revenue bonds:			
Sewer	Jul 5, 1995	3.00 %	\$ 369,000
Sewer	Jan 10, 2005	3.00	330,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds			
	Feb 20, 1996	7.00 %	\$ 100,000
	Jun 23, 2005	4.50	150,000
Total			

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>315,000</u>	<u>-</u>	<u>41,500</u>	<u>273,500</u>	<u>14,944</u>	<u>-</u>
225,000	-	18,000	207,000	8,021	-
-	330,000	1,000	329,000	8,363	-
<u>\$ 225,000</u>	<u>330,000</u>	<u>19,000</u>	<u>536,000</u>	<u>16,384</u>	<u>-</u>
12,000	-	12,000	-	840	-
<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>6,352</u>	<u>-</u>
<u>\$ 162,000</u>	<u>-</u>	<u>12,000</u>	<u>150,000</u>	<u>7,192</u>	<u>-</u>

## Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30,</u>	General Obligation Bonds	
	Pool and Grader	
	Issued April 15, 2005	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2007	4.25 %	\$ 21,500
2008	4.25	31,500
2009	4.25	31,500
2010	4.25	31,500
2011	4.25	31,500
2012	4.25	31,500
2013	4.25	31,500
2014	4.25	31,500
2015	4.25	31,500
Total		<u>\$ 273,500</u>

Year Ending <u>June 30,</u>	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Issued May 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2007	4.50 %	\$ 12,000
2008	4.50	12,000
2009	4.50	13,000
2010	4.50	14,000
2011	4.50	15,000
2012	4.50	16,000
2013	4.50	16,000
2014	4.50	17,000
2015	4.50	17,000
2016	4.50	18,000
Total		<u>\$ 150,000</u>

(continued)

## Bond and Note Maturities

June 30, 2006

Year Ending <u>June 30,</u>	Revenue Bonds				
	Sewer		Sewer		Total
	Issued July 5, 1995		Issued Jan. 10, 2005		
Interest		Interest			
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2007	3.00 %	\$ 19,000	3.00 %	1,000	20,000
2008	3.00	20,000	3.00	1,000	21,000
2009	3.00	21,000	3.00	1,000	22,000
2010	3.00	22,000	3.00	1,000	23,000
2011	3.00	23,000	3.00	1,000	24,000
2012	3.00	24,000	3.00	1,000	25,000
2013	3.00	25,000	3.00	1,000	26,000
2014	3.00	26,000	3.00	1,000	27,000
2015	3.00	27,000	3.00	1,000	28,000
2016		-	3.00	31,000	31,000
2017		-	3.00	31,000	31,000
2018		-	3.00	31,000	31,000
2019		-	3.00	31,000	31,000
2020		-	3.00	32,000	32,000
2021		-	3.00	32,000	32,000
2022		-	3.00	33,000	33,000
2023		-	3.00	34,000	34,000
2024		-	3.00	34,000	34,000
2025		-	3.00	31,000	31,000
		<u>\$ 207,000</u>		<u>329,000</u>	<u>536,000</u>

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, business type activities, each major fund and the aggregate remaining fund information of City of Graettinger, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents and have issued our report thereon dated July 27, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other 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 City of Graettinger'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 Graettinger'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 I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Graettinger'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 Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 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 City of Graettinger and other parties to who City of Graettinger 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 City of Graettinger 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.

Cornwell, Frideres, Maher & Associates, P.C.  
Certified Public Accountants

July 27, 2006

City of Graettinger, Iowa

Schedule of Findings

Year ended June 30, 2006

**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

I-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. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

**Part II: Other Findings Related to Statutory Reporting:**

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

II-B-06 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

City of Graettinger, Iowa

Schedule of Findings

Year ended June 30, 2006

II-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Mike Flaherty, Council Member, Owner, Joyce Plumbing & Heating	Furnace	\$ 1,784

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding.

II-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.

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

II-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.

II-H-06 Revenue Bonds – The City has complied with the revenue bond resolutions.

II-I-06 Sales Tax – It was noted that out of the thirteen utility accounts tested, one commercial account did not have the proper sales tax assessed.

Recommendation – The City should double check their accounts to make sure that sales tax is properly charged.

Response – This is an isolated incident. We have double checked our accounts to insure the proper sales tax is being assessed.

Conclusion – Response accepted.