

CITY OF GRINNELL

Grinnell, Iowa

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

June 30, 2007

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CITY OF GRINNELL

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Canfield.....	Mayor	January 2008
James White.....	Council Member.....	January 2010
Oliva Wright	Council Member.....	January 2010
Steve Witt.....	Council Member.....	January 2008
Shannon McNaul	Council Member.....	January 2010
Larry Wilson.....	Council Member.....	January 2008
Byron Worley.....	Council Member.....	January 2008
Russell Behrens.....	City Manager	Indefinite
P. Kay Cmelik.....	City Clerk/Finance Director	Indefinite
William Sueppel.....	City Attorney	Indefinite



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Grinnell's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell as of June 30, 2007, 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 February 13, 2008, on our consideration of the City of Grinnell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied 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 Grinnell's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with another comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

February 13, 2008

Gardiner Thompson, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grinnell has prepared the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

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

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer systems and solid waste systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City’s cash balance for governmental activities increased approximately \$2,302,834 from a year ago. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2007	2006
Receipts		
Program Receipts		
Charges for Service	\$239	\$304
Operating Grants	1,773	1,756
Capital Grants	3	1,206
General Receipts		
TIF	869	503
Property Tax	3,007	3,121
Grants and Contributions not restricted to specific purposes	0	1,059
Bonds Proceeds	3,483	317
Other General Receipts	2,761	210
Transfers, Net	285	888
Total Receipts and Transfers	<u>12,420</u>	<u>9,364</u>
Disbursements		
Public Safety	1,814	1,768
Public Works	1,723	778
Culture and Recreation	1,084	876
Community and Economic Development	1,875	974
General Government	962	1,037
Debt Service	356	696
Capital projects	2,303	6,304
Total Disbursements	<u>10,117</u>	<u>12,433</u>
(Increase) Decrease in Cash Basis Net Assets	2,303	(3,069)
Cash Basis Net Assets Beginning of Year	<u>4,185</u>	<u>7,254</u>
Cash Basis Net Assets End of Year	<u>\$6,488</u>	<u>\$4,185</u>

The City’s total receipts for governmental activities increased by 32% or \$3,056,000. The total cost of all programs and services decreased by approximately 18% or \$2,316,000.

The cost of all governmental activities this year was \$10,117,348 compared to \$12,433,398 last year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2007	2006
Receipts and Transfers		
Program Receipts		
Charges for Service		
Water	\$985	\$972
Sewer	1,410	1,279
Garbage	860	745
Other	267	422
Grants	0	109
	<u>3,522</u>	<u>3,527</u>
General Receipts		
Other General Receipts	806	232
Total Receipts and Transfers	<u>4,328</u>	<u>3,759</u>
Disbursements and Transfers		
Water	871	855
Sewer	2,263	738
Garbage	868	767
Transfers	285	888
Other	659	454
Total Disbursements and Transfers	<u>4,946</u>	<u>3,702</u>
Increase (Decrease) in Cash Balance	(618)	57
Cash Basis Net Assets - Beginning of Year	<u>3,006</u>	<u>2,949</u>
Cash Basis Net Assets - End of Year	<u><u>\$2,388</u></u>	<u><u>\$3,006</u></u>

Total business type activities receipts for the fiscal year were \$4,329,004 compared to \$3,759,580 last year. The cash balance decreased by \$617,378 from the prior year. Total disbursements and transfers for the fiscal year increased by 33% to a total of \$4,946,382.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grinnell completed the year, its governmental funds reported a combined fund balance of \$6,487,817, an increase of \$2,302,834 from last year's total of \$4,184,983. The following are changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$332,091 from the prior year to \$344,891 during the fiscal year.

- The Tax Increment Financing Fund cash balance decreased by \$169,814 to \$121,548 during the fiscal year.
- The Capital Projects Fund cash balance increased by \$2,758,081 to \$2,783,140 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$27,991 to \$447,564, due primarily to an increase in the sale of water.
- The Sewer Fund cash balance decreased by \$411,356 to \$1,400,759.
- The Solid Waste cash balance decreased by \$47,377 to \$2,797.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$9,584,514 in bonds and other long-term debt, compared to \$6,606,783 last year as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2007	2006
General Obligation Notes	\$6,934	\$3,667
Revenue Notes	2,650	2,940
Total	\$9,584	\$6,607

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa Limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,934,514 is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Grinnell elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities.

Grinnell will collect Local Option Sales and Service Tax for the first time this year. These revenues will be contributed towards the new Public Safety Building project; the new Stewart Library building project and the new Aquatic Center in the future. We will also see the Tax Increment Financing dollars being utilized to assist with the continuation of the Central Business District phases of development; TIF Rebate Agreements and future economic development projects.

The Sewer rates will likely see some increases over the next few years due to the required improvements to our wastewater treatment plant. The new Storm Water Utility will provide future capital projects to daily operations which lessen the burden to the sanitary sewer fund as well as the general fund.

As the rollback increases the aforementioned revenues prove to be valuable tools for the continued growth of the community.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact P. Kay Cmelik, City Clerk, Grinnell, Iowa.

Basic Financial Statements

CITY OF GRINNELL

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the Year Ended June 30, 2007

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental Activities:				
Public Safety	\$1,813,974	\$51,209	\$174,793	\$0
Public Works	1,722,727	16,072	819,753	0
Culture & Recreation	1,084,280	146,139	351,610	3,361
Community & Economic Development	1,874,595	0	211,869	0
General Government	962,178	19,405	79,452	0
Debt Service	356,601	0	0	0
Capital Projects	2,302,993	6,922	136,069	0
Total Governmental Activities	10,117,348	239,747	1,773,546	3,361
Business Type Activities:				
Water	871,566	985,002	0	0
Sewer Rental	2,263,473	1,410,734	54,693	0
Solid Waste	868,532	860,001	2,750	0
Building & Housing	290,900	107,308	0	0
Other	366,911	159,975	0	0
Total Business Type Activities	4,661,382	3,523,020	57,443	0
Total	\$14,778,730	\$3,762,767	\$1,830,989	\$3,361

General Receipts:

Property Taxes Levied For:
 General Purposes
 Tax Increment Financing
 Debt Service
 Hotel Motel Tax
 Unrestricted Interest on Investments
 Bond Proceeds
 Miscellaneous
 Utility Franchise
 Transfers

Total General Receipts & Transfers

Change in Cash Basis Net Assets

Cash Basis Net Assets Beginning of Year

Cash Basis Net Assets End of Year

Cash Basis Net Assets

Restricted:
 Streets
 Urban Renewal Purposes
 Debt Service
 Other Purposes
 Unrestricted
Total Cash Basis Net Assets

See Notes to Financial Statements

Exhibit A

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

Governmental Activities	Business Type Activities	Total
\$(1,587,972)	\$0	\$(1,587,972)
(886,902)	0	(886,902)
(583,170)	0	(583,170)
(1,662,726)	0	(1,662,726)
(863,321)	0	(863,321)
(356,601)	0	(356,601)
(2,160,002)	0	(2,160,002)
(8,100,694)	0	(8,100,694)
0	113,436	113,436
0	(798,046)	(798,046)
0	(5,781)	(5,781)
0	(183,592)	(183,592)
0	(206,936)	(206,936)
0	(1,080,919)	(1,080,919)
\$(8,100,694)	\$(1,080,919)	(9,181,613)
\$2,586,443	\$0	\$2,586,443
868,911	0	868,911
421,073	0	421,073
171,426	0	171,426
131,627	0	131,627
3,483,200	0	3,483,200
2,442,232	748,541	3,190,773
13,616	0	13,616
285,000	(285,000)	0
10,403,528	463,541	10,867,069
2,302,834	(617,378)	1,685,456
4,184,983	3,005,774	7,190,757
\$6,487,817	\$2,388,396	\$8,876,213
\$815,441	\$0	\$815,441
121,548	0	121,548
55,031	389,575	444,606
3,258,013	0	3,258,013
2,237,784	1,998,821	4,236,605
\$6,487,817	\$2,388,396	\$8,876,213

CITY OF GRINNELL

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

As of and for the Year Ended June 30, 2007

	General	<u>Special Revenue</u> Tax Increment Financing
Receipts:		
Property Tax	\$1,748,664	\$0
Tax Increment Financing Collections	0	868,911
Other City Tax	5,012	0
Licenses & Permits	3,619	0
Use of Money & Property	166,460	0
Intergovernmental	385,938	0
Charges for Service	189,522	0
Special Assessments	0	0
Miscellaneous	528,248	0
Total Receipts	3,027,463	868,911
Disbursements:		
Operating:		
Public Safety	1,378,182	0
Public Works	233,101	0
Culture & Recreation	978,078	0
Community & Economic Development	841,435	888,725
General Government	330,956	0
Debt Service	0	150,000
Capital Projects	0	0
Total Disbursements	3,761,752	1,038,725
Excess (Deficiency) of Receipts Over (Under) Disbursements	(734,289)	(169,814)
Other Financing Sources (Uses):		
Note Proceeds	0	0
Operating Transfers In	402,198	0
Operating Transfers Out	0	0
Total Other Financing Sources (Uses)	402,198	0
Net Change in Cash Balances	(332,091)	(169,814)
Cash Balances Beginning of Year	676,982	291,362
Cash Balances End of Year	\$344,891	\$121,548
Cash Basis Fund Balances		
Reserved:		
Debt Service	\$0	\$0
Cemetery Perpetual Care	0	0
Unreserved:		
General Fund	344,891	0
Special Revenue Funds	0	121,548
Capital Projects Funds	0	0
Total Cash Basis Fund Balances	\$344,891	\$121,548
See Notes to Financial Statement		

Exhibit B

Capital Projects	Nonmajor	Total
\$0	\$1,250,727	\$2,999,391
0	0	868,911
0	3,113	8,125
0	0	3,619
1,224	39,927	207,611
447,795	930,281	1,764,014
293	0	189,815
6,629	0	6,629
873,433	1,202,186	2,603,867
1,329,374	3,426,234	8,651,982
0	435,792	1,813,974
0	1,489,626	1,722,727
0	106,202	1,084,280
0	144,435	1,874,595
0	631,222	962,178
0	206,601	356,601
2,302,993	0	2,302,993
2,302,993	3,013,878	10,117,348
(973,619)	412,356	(1,465,366)
3,483,200	0	3,483,200
273,500	280,250	955,948
(25,000)	(645,948)	(670,948)
3,731,700	(365,698)	3,768,200
2,758,081	46,658	2,302,834
25,059	3,191,580	4,184,983
\$2,783,140	\$3,238,238	\$6,487,817
\$0	\$55,031	\$55,031
0	474,873	474,873
0	0	344,891
0	2,708,334	2,829,882
2,783,140	0	2,783,140
\$2,783,140	\$3,238,238	\$6,487,817

Exhibit C**CITY OF GRINNELL****STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – PROPRIETARY FUNDS**

As of and for the Year Ended June 30, 2007

	Water	Sewer	Solid Waste	Nonmajor	Total
Operating Receipts:					
Use of Money & Property	\$27,555	\$4,690	\$0	\$8,924	\$41,169
Charges for Service	985,002	1,410,734	860,001	267,283	3,523,020
Miscellaneous	0	500,000	51,404	155,968	707,372
Total Operating Receipts	1,012,557	1,915,424	911,405	432,175	4,271,561
Operating Disbursements:					
Business Type Activities	871,566	1,875,378	868,532	657,811	4,273,287
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	140,991	40,046	42,873	(225,636)	(1,726)
Non-Operating Receipts (Disbursements):					
Interest on Investments	0	54,693	2,750	0	57,443
Debt Service	0	(388,095)	0	0	(388,095)
Net Non-Operating Receipts (Disbursements)	0	(333,402)	2,750	0	(330,652)
Excess (Deficiency) of Receipts Over (Under) Disbursements	140,991	(293,356)	45,623	(225,636)	(332,378)
Operating Transfers In (Out)	(113,000)	(118,000)	(93,000)	39,000	(285,000)
Net Change in Cash Balances	27,991	(411,356)	(47,377)	(186,636)	(617,378)
Cash Balances Beginning of Year	419,573	1,812,115	50,174	723,912	3,005,774
Cash Balances End of Year	\$447,564	\$1,400,759	\$2,797	\$537,276	\$2,388,396
Cash Basis Fund Balances					
Reserved for Debt Services	\$0	\$389,575	\$0	\$0	\$389,575
Unreserved	447,564	1,011,184	2,797	537,276	1,998,821
Total Cash Basis Fund Balances	\$447,564	\$1,400,759	\$2,797	\$537,276	\$2,388,396

See Notes to Financial Statements

CITY OF GRINNELL
June 30, 2007

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the City of Grinnell has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Grinnell has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board, Poweshiek County Emergency Management Commission, and the Poweshiek County Joint E911 Service Board.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

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

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

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

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

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

Special Revenue -

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the Community and Economic Development General Government, Debt Service Capital Projects and Business Type functions.

Note 2: Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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.

Interest rate risk: The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments (Continued)

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

Note 3: Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes & Bonds		Revenue Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$567,386	\$245,285	\$300,000	\$89,575	\$867,386	\$334,860
2009	429,143	227,281	300,000	80,875	729,143	308,156
2010	509,737	213,949	315,000	72,175	824,737	286,124
2011	535,370	197,616	325,000	62,095	860,370	259,711
2012	551,044	179,855	325,000	51,208	876,044	231,062
2013-2017	3,541,835	559,008	1,085,000	81,815	4,626,835	640,823
2018	800,000	30,800	0	0	800,000	30,800
Total	\$6,934,514	\$1,653,793	\$2,650,000	\$437,743	\$9,584,514	\$2,091,536

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

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

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

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

Notes to Financial Statements (Continued)

Note 3: Bonds and Notes Payable (Continued)

On June 1, 2007, the City issued \$3,500,000 of General Obligation Urban Renewal Bonds. The bonds were issued to pay the costs of aiding in planning, undertaking and carrying out of an urban renewal project, including streets, water, storm and sanity sewer improvements, including right of way acquisition, landscaping and lighting in a commercial portion of the Urban Renewal Area. Interest is due on December 1, 2007 and semiannually through June 1, 2018. Principal is due annually on June 1 of each year from 2008 to 2018.

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

Note 4: Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$103,352, \$98,457, and \$98,581, respectively, equal to the required contribution for each year.

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

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2007, 2006, and 2005 were \$221,611, \$224,145, and \$198,477, respectively, which exceeds the required minimum contribution for each year.

Notes to Financial Statements (Continued)

Note 5: Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$84,785
Compensated Absences	331,824
Total	<u>\$416,609</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

Note 6: Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue:	
	Road Use Tax	\$82,951
	Employee Benefits	244,247
	Enterprise:	
	Sewer	75,000
		<u>402,198</u>
Special Revenue	Special Revenue	
Equipment	Road Use Tax	45,250
Equipment	Capital Projects	25,000
Equipment	Enterprise:	
	Water	100,000
	Sewer	30,000
	Solid Waste	80,000
		<u>280,250</u>
Capital Projects:	Debt Service	
Capital Loan Note 06-07		273,500
Enterprise		
Community Center	Enterprise:	
	Water	13,000
	Sewer	13,000
	Solid Waste	13,000
		<u>39,000</u>
Total		<u>\$994,948</u>

Notes to Financial Statements (Continued)

Note 6: Interfund Transfers (Continued)

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

Note 7: Industrial Development Revenue Bonds

The City has issued a total of \$14,390,000 of Industrial Development Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$8.9 million is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

Note 8: Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$141,030.

Notes to Financial Statements (Continued)

Note 8: Risk Management (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007 settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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

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

Note 9: Budget Over Expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2007, disbursements in the Community and Economic Development, General Government, Debt Service, Capital Projects, and Business Type functions exceeded the amounts budgeted.

Required Supplementary Information

CITY OF GRINNELL

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS & CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS – REQUIRED SUPPLEMENTARY INFORMATION Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property Tax	\$2,999,391	\$0	\$2,999,391
Tax Increment Financing	868,911	0	868,911
Other City Tax	8,125	0	8,125
Licenses & Permits	3,619	0	3,619
Use of Money & Property	207,611	98,612	306,223
Intergovernmental	1,764,014	0	1,764,014
Charges for Service	189,815	3,523,020	3,712,835
Special Assessments	6,629	0	6,629
Miscellaneous	2,603,867	707,372	3,311,239
Total Receipts	8,651,982	4,329,004	12,980,986
Disbursements:			
Public Safety	1,813,974	0	1,813,974
Public Works	1,722,727	0	1,722,727
Culture & Recreation	1,084,280	0	1,084,280
Community & Economic Development	1,874,595	0	1,874,595
General Government	962,178	0	962,178
Debt Service	356,601	0	356,601
Capital Projects	2,302,993	0	2,302,993
Business Type Activities	0	4,661,382	4,661,382
Total Disbursements	10,117,348	4,661,382	14,778,730
Excess (Deficiency) of Receipts Over (Under) Disbursements	(1,456,366)	(332,378)	(1,797,744)
Other Financing Sources (Uses), Net	3,768,200	(285,000)	3,483,200
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	2,302,834	(617,378)	1,685,456
Balances Beginning of Year	4,184,983	3,005,774	7,190,757
Balances End of Year	\$6,487,817	\$2,388,396	\$8,876,213

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Total
Original	Final	Variance
\$2,921,455	\$3,497,660	\$(498,269)
874,862	895,488	(26,577)
214,315	214,552	(206,427)
13,500	2,738	881
92,700	313,480	(7,257)
2,045,458	1,945,109	(181,095)
4,102,167	3,806,979	(94,144)
2,500	6,629	0
566,467	1,365,637	1,945,602
10,833,424	12,048,272	932,714
1,753,481	1,831,300	17,326
921,560	2,848,027	1,125,300
1,163,747	1,265,142	180,862
907,533	1,526,356	(348,239)
951,576	848,150	(114,028)
956,245	354,850	(1,751)
1,858,500	2,192,692	(110,301)
2,864,514	3,274,193	(1,387,189)
11,377,156	14,140,710	(638,020)
(543,732)	(2,092,438)	294,694
273,500	3,484,665	(1,465)
(270,232)	1,392,227	293,229
7,827,412	7,827,412	(636,655)
\$7,557,180	\$9,219,639	\$(343,426)

City of Grinnell

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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, a budget amendment increased budgeted disbursements by \$2,763,554. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the Community and Economic Development, General Government, Debt Service and Capital Projects and Business Type Activities functions.

Other Supplementary Information

CITY OF GRINNELL

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

As of and for the Year Ended June 30, 2007

	Special Revenue						
	Road Use Tax	Employee Benefits	Unemployment Reserve	Pension Reserve	Insurance Deductible	Insurance Reserve	Insurance Escrow
Receipts:							
Property Tax	\$0	\$830,377	\$0	\$0	\$0	\$0	\$0
Other City Tax	0	2,390	0	0	0	0	0
Use of Money & Property	0	0	0	69	605	6,039	0
Intergovernmental	758,855	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	508,069	0
Total Receipts	<u>758,855</u>	<u>832,767</u>	<u>0</u>	<u>69</u>	<u>605</u>	<u>514,108</u>	<u>0</u>
Disbursements:							
Operating:							
Public Safety	0	411,456	0	6,700	0	0	0
Public Works	754,614	89,935	0	0	0	0	0
Culture & Recreation	0	103,629	0	0	0	0	0
Community & Economic Development	0	296	0	0	0	0	0
General Government	0	70,418	0	0	2,000	558,804	0
Debt Service	0	0	0	0	0	0	0
Total Disbursements	<u>754,614</u>	<u>675,734</u>	<u>0</u>	<u>6,700</u>	<u>2,000</u>	<u>558,804</u>	<u>0</u>
Excess (Deficiency) of Cash over (Under) Disbursements	4,241	157,033	0	(6,631)	(1,395)	(44,696)	0
Other Financing Sources (Uses):							
Operating Transfers In	0	0	0	0	0	0	0
Operating Transfers Out	(128,201)	(244,247)	0	0	0	0	0
	<u>(128,201)</u>	<u>(244,247)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Cash Balances	(123,960)	(87,214)	0	(6,631)	(1,395)	(44,696)	0
Cash Balances Beginning of Year	939,401	305,592	35,561	14,558	77,600	108,008	9,482
Cash Balances End of Year	<u>\$815,441</u>	<u>\$218,378</u>	<u>\$35,561</u>	<u>\$7,927</u>	<u>\$76,205</u>	<u>\$63,312</u>	<u>\$9,482</u>
Cash Basis Fund Balances							
Reserved for Cemetery Perpetual Care	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	0	0	0	0	0	0	0
Unreserved:							
Special Revenue Funds	815,441	218,378	35,561	7,927	76,205	63,312	9,482
Total Cash Basis Fund Balances	<u>\$815,441</u>	<u>\$218,378</u>	<u>\$35,561</u>	<u>\$7,927</u>	<u>\$76,205</u>	<u>\$63,312</u>	<u>\$9,482</u>

See Accompanying Independent Auditors' Report

Schedule 1

Hotel Motel Tax	Library	Forfeiture	Special Revenue				Equipment Reserve	Debt Service	Permanent	Total
			Special Assessments	Cemetery Plantings	Cemetery Trees	Cemetery Perpetual Care				
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$420,350	\$0	\$1,250,727	
0	0	0	0	0	0	0	723	0	3,113	
182	10,851	0	19	0	0	9,284	12,878	0	39,927	
171,426	0	0	0	0	0	0	0	0	930,281	
4,880	8,329	33,144	0	1,685	640	631,532	0	13,907	1,202,186	
176,488	19,180	33,144	19	1,685	640	640,816	433,951	13,907	3,426,234	
0	0	17,636	0	0	0	0	0	0	435,792	
0	0	0	0	0	0	645,077	0	0	1,489,626	
0	2,573	0	0	0	0	0	0	0	106,202	
144,139	0	0	0	0	0	0	0	0	144,435	
0	0	0	0	0	0	0	0	0	631,222	
0	0	0	0	0	0	0	206,601	0	206,601	
144,139	2,573	17,636	0	0	0	645,077	206,601	0	3,013,878	
32,349	16,607	15,508	19	1,685	640	(4,261)	227,350	13,907	412,356	
0	0	0	0	0	0	280,250	0	0	280,250	
0	0	0	0	0	0	0	(273,500)	0	(645,948)	
0	0	0	0	0	0	280,250	(273,500)	0	(365,698)	
32,349	16,607	15,508	19	1,685	640	275,989	(46,150)	13,907	46,658	
46,227	226,593	0	84,659	7,528	550	773,674	101,181	460,966	3,191,580	
\$78,576	\$243,200	\$15,508	\$84,678	\$9,213	\$1,190	\$1,049,663	\$55,031	\$474,873	\$3,238,238	
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$474,873	\$474,873	
0	0	0	0	0	0	0	55,031	0	55,031	
78,576	243,200	15,508	84,678	9,213	1,190	1,049,663	0	0	2,708,334	
\$78,576	\$243,200	\$15,508	\$84,678	\$9,213	\$1,190	\$1,049,663	\$55,031	\$474,873	\$3,238,238	

CITY OF GRINNELL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS & CHANGES
IN CASH BALANCES – NONMAJOR PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2007**

	GET 12	Building & Housing	Concessions	Airport Enterprise
Operating Receipts:				
Use of Money & Property	\$108	\$8,816	\$0	\$0
Charges for Service	54,642	107,308	0	26,456
Miscellaneous	290	420	3,383	39,465
Total Operating Receipts	55,040	116,544	3,383	65,921
Operating Disbursements:				
Business Type Activities	37,776	290,900	2,582	73,488
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements				
	17,264	(174,356)	801	(7,567)
Operating Transfers In (Out)	0	0	0	0
Net Change in Cash Balances	17,264	(174,356)	801	(7,567)
Cash Balances Beginning of Year	28,927	503,706	7,378	24,494
Cash Balances End of Year	<u>\$46,191</u>	<u>\$329,350</u>	<u>\$8,179</u>	<u>\$16,927</u>
Cash Basis Fund Balances				
Unreserved	<u>\$46,191</u>	<u>\$329,350</u>	<u>\$8,179</u>	<u>\$16,927</u>

See Notes to Financial Statements

See Accompanying Independent Auditors' Report

Schedule 2

<u>Community Center</u>	<u>Cemetery</u>	<u>Total</u>
\$0	\$0	\$8,924
45,571	33,306	267,283
77,501	34,909	155,968
<u>123,072</u>	<u>68,215</u>	<u>432,175</u>
<u>178,954</u>	<u>74,111</u>	<u>657,811</u>
(55,882)	(5,896)	(225,636)
39,000	0	39,000
(16,882)	(5,896)	(186,636)
152,408	6,999	723,912
<u>\$135,526</u>	<u>\$1,103</u>	<u>\$537,276</u>
<u>\$135,526</u>	<u>\$1,103</u>	<u>\$537,276</u>

CITY OF GRINNELL

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes and Bonds			
2005 Bonds	January 1, 2005	2.20-3.55%	\$3,500,000
2006 A Capital Loan Note	May 15, 2006	5.00%	208,028
2006 B Capital Loan Note	May 15, 2006	6.50%	108,755
2007 Urban Renewal Bonds	June 1, 2007	3.70-3.85%	3,500,000
Revenue Notes			
2003 Sewer Refunding Capital Loan	May 1, 2003	2.8-3.8%	3,755,000

See Accompanying Independent Auditors' Report

Schedule 3

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
\$3,350,000	\$0	\$185,000	\$3,165,000	\$106,060	\$0
208,028	0	46,792	161,236	10,430	0
108,755	0	477	108,278	7,089	0
0	3,500,000	0	3,500,000	0	0
3,666,783	3,500,000	232,269	6,934,514	123,579	0
2,940,000	0	290,000	2,650,000	97,695	0
\$6,606,783	\$3,500,000	\$522,269	\$9,584,514	\$221,274	\$0

CITY OF GRINNELL

**Bond and Note Maturities
June 30, 2007**

General Obligation Bonds

2005		
\$3,500,000 Issued		
<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Amount</u>
2008	2.55	\$190,000
2009	2.75	295,000
2010	3.00	400,000
2011	3.15	425,000
2012	3.30	440,000
2013	3.35	455,000
2014	3.45	475,000
2015	3.55	485,000
Total		<u>\$3,165,000</u>

General Obligation Urban Renewal Bonds

2007		
\$3,500,000 Issued		
<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Amount</u>
2008	3.70%	\$200,000
2009	3.70	125,000
2010	3.70	100,000
2011	3.70	100,000
2012	3.70	100,000
2013	3.70	200,000
2014	3.70	200,000
2015	3.70	200,000
2016	3.75	700,000
2017	3.80	775,000
2018	3.85	800,000
		<u>\$3,500,000</u>

See Accompanying Independent Auditors' Report

Schedule 4

General Obligation Note			General Obligation Note	
2006A			2006 B	
\$208,028 Issued			\$108,755 Issued	
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount
2008	5%	\$161,236	6.5%	\$16,150
2009	0	0	6.5%	9,143
2010	0	0	6.5%	9,737
2011	0	0	6.5%	10,370
2012	0	0	6.5%	11,044
2013	0	0	6.5%	11,761
2014	0	0	6.5%	12,526
2015	0	0	6.5%	13,340
2016	0	0	6.5%	14,207
		<u>\$161,236</u>		<u>\$108,278</u>

Revenue Notes

Sewer Refunding Notes		
Year Ending June 30,	Interest Rate	Amount
2008	2.90	\$300,000
2009	2.90	300,000
2010	3.20	315,000
2011	3.35	325,000
2012	3.45	325,000
2013	3.55	350,000
2014	3.70	360,000
2015	3.80	375,000
Total		<u>\$2,650,000</u>

CITY OF GRINNELL

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

	2007	2006	2005
Receipts:			
Property Tax	\$2,999,391	\$3,056,035	\$3,070,756
Tax Increment Financing Collections	868,911	503,377	495,897
Other City Tax	8,125	70,911	61,123
Licenses & Permits	3,619	14,309	19,090
Use of Money & Property	207,611	123,410	110,910
Intergovernmental	1,764,014	2,864,425	1,053,762
Charges for Service	189,815	221,497	258,076
Special Assessments	6,629	15,039	2,133
Miscellaneous	2,603,867	1,290,592	1,417,407
Total	<u>\$8,651,982</u>	<u>\$8,159,595</u>	<u>\$6,489,154</u>
Disbursements:			
Operating:			
Public Safety	\$1,813,974	\$1,768,132	\$1,632,680
Public Works	1,722,727	778,029	676,135
Culture & Recreation	1,084,280	876,011	767,961
Community & Economic Development	1,874,595	974,415	667,509
General Government	962,178	1,037,363	904,880
Debt Service	356,601	696,402	949,402
Capital Projects	2,302,993	6,303,046	2,065,574
Total	<u>\$10,117,348</u>	<u>\$12,433,398</u>	<u>\$7,664,141</u>

See Accompanying Independent Auditors' Report.



Gardiner Thomsen
Certified Public Accountants

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 13, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Grinnell's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Grinnell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Grinnell's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Grinnell's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Grinnell's financial statements that is more than inconsequential will not be prevented or detected by City of Grinnell's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Grinnell's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items A and B are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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.

The City of Grinnell's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit City of Grinnell's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Grinnell during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

February 13, 2008

Gardiner Thomsen, P.C.

City of Grinnell

Schedule of Findings

Year Ended June 30, 2007

Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

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

Response – We will review the procedures as suggested.

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

B Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by an other comprehensive basis of accounting. The City of Grinnell does not have internal resources to prepare the full-disclosure financial statements required by another comprehensive basis of accounting for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles and prepare full disclosure financial statements for external reporting purposes is difficult. However, we recommend that City officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

Findings Related to the Financial Statements (Continued)

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

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

Response – We have updated our written policy.

) Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

Other Findings Related to Required Statutory Reporting:

1. Certified Budget – Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the Community and Economic Development, General Government, Debt Service and Capital Projects and Business Type Activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – We amended the budget and believed that we had accounted for all of the changes. We had not fully reconciled the computer from the previous year due to our software provider’s inability to provide the necessary support in a timely manner. This issue should be resolved and not happen again.

Conclusion – Response accepted.

2. Questionable Disbursements – No expenditures that may not meet the requirements of public purpose as defined by 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 – There were no business transactions noted between the City and City officials or employees during the fiscal year.

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 that the coverage is adequate for current operations.

Other Findings Related to Required Statutory Reporting (Continued)

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

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

Recommendation – Minutes should include the information regarding fund disbursements and a summary of receipts.

Response – The publication of the receipts and disbursements by fund was also an issue with our software and it has been corrected.

Conclusion – Response accepted.

7. 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.

8. Economic Development – The City paid \$888,725 for economic development which public purpose was evaluated and documented.

NEWS RELEASE

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

The City's receipts totaled \$16,463,186 for the year ended June 30, 2007, a 34% increase from 2006. The receipts included \$3,007,516 in property tax, \$868,911 from tax increment financing collections, \$3,762,767 from charges for service, \$1,830,989 from operating grants, contributions and restricted interest, \$3,361 from capital grants, contributions and restricted interest, \$131,627 from unrestricted investment earnings and \$3,375,815 from other general receipts and \$3,483,200 from Bond Proceeds.

Disbursements for the year totaled \$14,778,730, a 3% decrease from the prior year, and included \$2,302,993 for Capital Projects, \$1,813,974 for Public Safety, and \$1,874,595 for Economic Development. Also, disbursements for business type activities totaled \$4,661,382.

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

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

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