



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 17, 2011

Contact: Andy Nielsen
515/281-5834

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

The City's receipts totaled \$2,804,234 for the year ended June 30, 2010. The receipts included \$605,160 in property tax, \$79,601 from tax increment financing, \$512,816 from charges for service, \$179,343 from operating grants, contributions and restricted interest, \$59,250 from local option sales tax, \$6,110 from unrestricted interest on investments, \$1,355,632 from note proceeds and \$6,322 from other general receipts.

Disbursements for the year totaled \$2,420,557, and included \$242,261 for capital projects, \$188,324 for public safety and \$340,937 for debt service. Also, disbursements for business type activities totaled \$1,307,357.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1021-0234-B00F.pdf>.

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

JUNE 30, 2010

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C	19
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	20
Notes to Financial Statements		21-27
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		30-31
Notes to Required Supplementary Information – Budgetary Reporting		32
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	34-35
Schedule of Indebtedness	2	36-37
Bond and Note Maturities	3	38-40
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 <u>Government Auditing Standards</u>		41-42
Schedule of Findings		43-48
Staff		49

City of Granger

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Thomas Schenk	Mayor	Jan 2010
James Doyle	Mayor Pro tem	Jan 2012
David Chambers	Council Member	Jan 2010
Robert Herrold	Council Member	Jan 2010
Cathy Fuson	Council Member	Jan 2012
Spence Leighton	Council Member	Jan 2012
(After January 2010)		
Thomas Schenk	Mayor	Jan 2012
James Doyle	Mayor Pro tem	Jan 2012
Cathy Fuson	Council Member	Jan 2012
Spence Leighton	Council Member	Jan 2012
Robert Herrold	Council Member	Jan 2014
Scott Smyth	Council Member	Jan 2014
Anita Gibbs	Clerk/Treasurer	Indefinite
Ralph Brown	Attorney	Indefinite

City of Granger



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Granger, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Granger's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

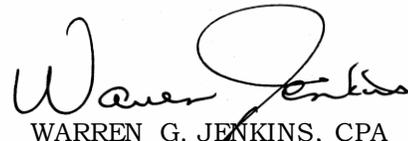
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Granger as of June 30, 2010, 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 June 2, 2011 on our consideration of the City of Granger's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or 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 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Granger's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 2, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Granger provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$241,000, primarily due to note proceeds received, but not completely spent during the year, and an increase in property tax.
- The cash basis net assets of the City's business type activities increased approximately \$142,000 due to an increase in customers and increases in water and sewer fees.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer and garbage systems. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

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

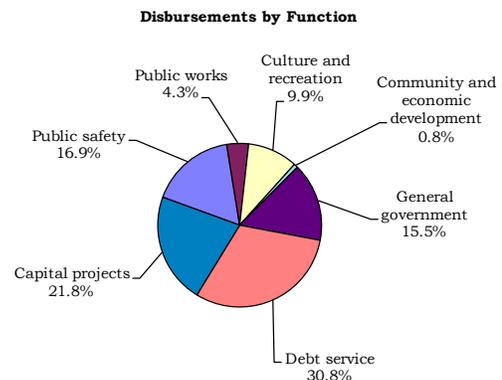
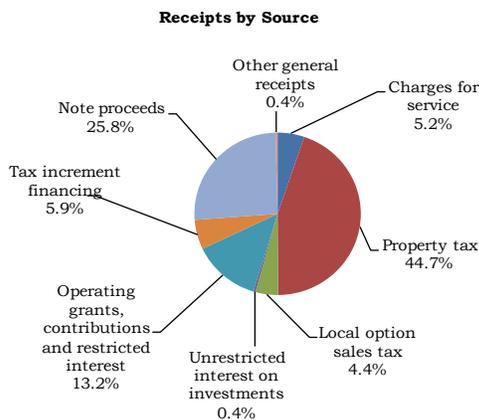
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

A reconciliation between the government-wide statement and the governmental funds financial statement follows the governmental fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$167,901 to \$409,379. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2010
Receipts:		
Program receipts:		
Charges for service		\$ 70
Operating grants, contributions and restricted interest		179
General receipts:		
Property tax		605
Tax increment financing		80
Local option sales tax		59
Unrestricted interest on investments		5
Note proceeds		350
Other general receipts		6
Total receipts		<u>1,354</u>
Disbursements:		
Public safety		188
Public works		48
Health and social services		3
Culture and recreation		110
Community and economic development		9
General government		172
Debt service		341
Capital projects		242
Total disbursements		<u>1,113</u>
Increase in cash basis net assets		241
Cash basis net assets beginning of year		<u>168</u>
Cash basis net assets end of year		<u>\$ 409</u>



The cash basis net assets of the City's governmental funds increased from \$167,901 to \$409,379, due primarily to notes proceeds received, but not completely spent during the year and an increase in property tax.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 218
Sewer	169
Garbage	55
General receipts:	
Unrestricted interest on investments	1
Note proceeds	1,006
Total receipts	<u>1,449</u>
Disbursements:	
Water	1,127
Sewer	127
Garbage	53
Total disbursements	<u>1,307</u>
Increase in cash basis net assets	142
Cash basis net assets beginning of year	<u>323</u>
Cash basis net assets end of year	<u>\$ 465</u>

Total business type activities balance increased from a year ago, increasing from \$322,726 to \$464,925. The increase is due to an increase in customers and increases in water and sewer fees.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Granger completed the year, its governmental funds reported a combined fund balance of \$396,718, an increase of more than \$ 236,000 above last year's total of \$160,256. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$94,402 from the prior year to a year-end balance of \$198,742. This increase is due to an increase in building permits and ambulance collections.
- The Special Revenue, Urban Renewal TIF Fund cash balance decreased \$5,644 to \$15,493 during the fiscal year. The decrease was not significant.
- The Debt Service Fund is a new fund. The cash balance at June 30, 2010 was \$29,280.
- The Capital Projects Fund cash balance increased \$107,839. The increase represents unspent note proceeds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$97,261 to a year-end balance of \$159,152. This increase was primarily due to an increase in customers and fees.
- The Enterprise, Sewer Fund cash balance increased \$42,964 to a year-end balance of \$302,180. The increase was due primarily to an increase in sewer fees and a reduction in sewer related expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 12, 2010 and resulted in increases in other financing sources and capital projects disbursements of \$350,000. The City issued \$350,000 of general obligation notes on February 22, 2010 to finance projects under its urban renewal plan.

Even with this budget amendment, the City exceeded the budget for the health and social services, general governmental and debt service functions for the year ended June 30, 2010. Actual charges for service receipts exceeded the budget due to more housing being built. Budgeted public safety disbursements exceeded actual disbursements due to the ambulance capital lease payment being budgeted out of public safety but being paid from the debt service function instead. Capital projects disbursements were under budget because the community building project was not completed within the fiscal year.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$3,728,752 in long-term and interim financing debt outstanding, compared to \$3,062,519 last year. The table below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation notes	\$ 2,643,000	2,062,057
Revenue bonds	356,000	389,000
Revenue notes	589,689	7,000
Capital lease	140,063	206,519
Total	\$ 3,728,752	2,664,576

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is \$2,783,063, below its constitutional debt limit of approximately \$3,845,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Granger's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. The City's fiscal year 2011 assessed valuation has increased \$1,174,503 over the fiscal year 2010 level.

The fiscal year 2011 budget contains total receipts of \$2,623,297 and disbursements of \$2,781,514. This budget is higher than the original fiscal year 2010 budget which contained total receipts and other financing sources of \$2,328,598 and disbursements of \$2,312,232. The fiscal year 2011 budget includes approximately \$65,000 in additional receipts for proprietary fund charges for service.

The fiscal year 2011 levy is \$15.41724 per \$1,000 of taxable valuation, an increase from \$14.17003 per \$1,000 of taxable valuation for fiscal year 2009. The debt service levy increased from \$5.01639 per \$1,000 of taxable valuation for 2010 to \$6.00514 per \$1,000 of taxable valuation for fiscal year 2011.

These parameters were taken into account when adopting the budget for fiscal year 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anita Gibbs, City Clerk, 1906 Main Street, Granger, IA 50109.

Basic Financial Statements

City of Granger

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 188,324	68,949	38,329
Public works	47,912	-	56,120
Health and social services	3,250	-	-
Culture and recreation	109,712	-	29,009
Community and economic development	8,644	-	-
General government	172,560	653	55,885
Debt service	340,637	-	-
Capital projects	242,161	-	-
Total governmental activities	1,113,200	69,602	179,343
Business type activities:			
Water	1,126,839	218,468	-
Sewer	127,453	169,707	-
Garbage	53,065	55,039	-
Total business type activities	1,307,357	443,214	-
Total	\$ 2,420,557	512,816	179,343

General Receipts:

Property and other city tax levied for:

General purposes

Debt service

Tax increment financing

Local option sales tax

Unrestricted interest on investments

Note proceeds

Miscellaneous

Total general receipts

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:

Urban renewal

Debt service

Capital projects

Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(81,046)	-	(81,046)
8,208	-	8,208
(3,250)	-	(3,250)
(80,703)	-	(80,703)
(8,644)	-	(8,644)
(116,022)	-	(116,022)
(340,637)	-	(340,637)
(242,161)	-	(242,161)
(864,255)	-	(864,255)
-	(908,371)	(908,371)
-	42,254	42,254
-	1,974	1,974
-	(864,143)	(864,143)
(864,255)	(864,143)	(1,728,398)
384,508	-	384,508
220,652	-	220,652
79,601	-	79,601
59,250	-	59,250
5,400	710	6,110
350,000	1,005,632	1,355,632
6,322	-	6,322
1,105,733	1,006,342	2,112,075
241,478	142,199	383,677
167,901	322,726	490,627
\$ 409,379	464,925	874,304
\$ 15,493	-	15,493
29,280	196,594	225,874
107,839	68,796	176,635
45,364	-	45,364
211,403	199,535	410,938
\$ 409,379	464,925	874,304

City of Granger

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

As of and for the year ended June 30, 2010

	Special Revenue		
	General	Urban Renewal TIF	Debt Service
Receipts:			
Property tax	\$ 379,862	-	217,943
Tax increment financing	-	79,601	-
Other city tax	4,646	-	2,709
Licenses and permits	19,236	-	-
Use of money and property	5,888	-	-
Intergovernmental	47,580	-	-
Charge for service	49,973	-	-
Miscellaneous	66,937	-	-
Total receipts	<u>574,122</u>	<u>79,601</u>	<u>220,652</u>
Disbursements:			
Operating:			
Public safety	184,556	-	-
Public works	17,729	-	-
Health and social services	3,250	-	-
Culture and recreation	102,835	-	-
Community and economic development	6,520	-	-
General government	172,560	-	-
Debt service	-	85,245	242,892
Capital projects	-	-	-
Total disbursements	<u>487,450</u>	<u>85,245</u>	<u>242,892</u>
Excess (deficiency) of receipts over (under) disbursements	<u>86,672</u>	<u>(5,644)</u>	<u>(22,240)</u>
Other financing sources (uses):			
Note proceeds	-	-	-
Operating transfers in	59,250	-	51,520
Operating transfers out	(51,520)	-	-
Total other financing sources (uses)	<u>7,730</u>	<u>-</u>	<u>51,520</u>
Net change in cash balances	94,402	(5,644)	29,280
Cash balances beginning of year	104,340	21,137	-
Cash balances end of year	<u>\$ 198,742</u>	<u>15,493</u>	<u>29,280</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	29,280
Unreserved:			
General fund	198,742	-	-
Special revenue funds	-	15,493	-
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 198,742</u>	<u>15,493</u>	<u>29,280</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	-	597,805
-	-	79,601
-	59,250	66,605
-	-	19,236
-	-	5,888
-	54,080	101,660
-	-	49,973
-	11,947	78,884
-	125,277	999,652
-	3,768	188,324
-	30,173	47,902
-	-	3,250
-	6,877	109,712
-	2,124	8,644
-	-	172,560
-	12,500	340,637
242,161	-	242,161
242,161	55,442	1,113,190
(242,161)	69,835	(113,538)
350,000	-	350,000
-	-	110,770
-	(59,250)	(110,770)
350,000	(59,250)	350,000
107,839	10,585	236,462
-	34,779	160,256
107,839	45,364	396,718
-	-	29,280
-	-	198,742
-	45,364	60,857
107,839	-	107,839
107,839	45,364	396,718

City of Granger

City of Granger

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

As of and for the year ended June 30, 2010

Total governmental funds cash balances (page 17) \$ 396,718

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

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

12,661

Cash basis net assets of governmental activities (page 15) \$ 409,379

Net change in cash balances (page 17) \$ 236,462

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

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

5,016

Change in cash balances of governmental activities (page 15) \$ 241,478

See notes to financial statements.

Exhibit D

City of Granger

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

As of and for the year ended June 30, 2010

	Enterprise				Internal
	Water	Sewer	Nonmajor Garbage	Total	Service Vehicle Replacement
Operating receipts:					
Charges for service	\$ 218,468	169,707	55,039	443,214	-
Miscellaneous	-	-	-	-	5,000
Total operating receipts	218,468	169,707	55,039	443,214	5,000
Operating disbursements:					
Governmental activities:					
Public works	-	-	-	-	10
Business type activities	142,406	78,799	53,065	274,270	-
Total operating disbursements	142,406	78,799	53,065	274,270	10
Excess of operating receipts over operating disbursements	76,062	90,908	1,974	168,944	4,990
Non-operating receipts (disbursements):					
Interest on investments	-	710	-	710	26
General obligation note proceeds	397,943	-	-	397,943	-
Revenue note proceeds	607,689	-	-	607,689	-
Capital projects	(947,807)	-	-	(947,807)	-
Debt service	(36,626)	(48,654)	-	(85,280)	-
Net non-operating receipts (disbursements)	21,199	(47,944)	-	(26,745)	26
Excess of receipts over disbursements	97,261	42,964	1,974	142,199	5,016
Cash balances beginning of year	61,891	259,216	1,619	322,726	7,645
Cash balances end of year	\$ 159,152	302,180	3,593	464,925	12,661
Cash Basis Fund Balances					
Reserved for:					
Debt service	\$ 10,971	185,623	-	196,594	-
Capital projects	68,796	-	-	68,796	-
Unreserved	79,385	116,557	3,593	199,535	12,661
Total cash basis fund balances	\$ 159,152	302,180	3,593	464,925	12,661

See notes to financial statements.

City of Granger

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Granger is a political subdivision of the State of Iowa located in Dallas and Polk Counties. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

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

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

Blended Component Units

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

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

The Granger Economic Development Association (EDA) is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. EDA is organized under Chapter 504A of the Code of Iowa as a non-profit

corporation and collects donations which are used for economic development purposes which are not included in the City's budget. The financial transactions of EDA have been reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Urban Renewal TIF Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

The City also reports the following additional proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the health and social services, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Bonds, Notes and Capital Lease Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 200,000	57,791	34,000	10,858	234,000	68,649
2012	177,000	49,963	35,000	9,821	212,000	59,784
2013	164,000	42,826	36,000	8,753	200,000	51,579
2014	139,000	36,117	38,000	7,655	177,000	43,772
2015	133,000	30,365	39,000	6,497	172,000	36,862
2016 - 2020	742,000	76,491	174,000	13,511	916,000	90,002
2021 - 2025	629,000	24,000	-	-	629,000	24,000
2026 - 2028	459,000	14,400	-	-	459,000	14,400
Total	\$ 2,643,000	331,953	356,000	57,095	2,999,000	389,048

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, certain principal and interest payments on general obligation notes were made from the Special Revenue, Road Use Tax and Urban Renewal TIF Funds.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$665,000 of wastewater treatment facility revenue bonds issued in September 1999. Proceeds from the bonds provided financing for the construction of the wastewater treatment system. The bonds are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 52 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$413,095. For the current year, principal and interest paid and total customer net receipts were \$46,459 and \$90,908, respectively.

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

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

Revenue Notes

On January 14, 2009, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$700,000 of water revenue notes with interest at 3.25% per annum. The notes were issued pursuant to the provisions of Chapter 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's water system. The City will draw down funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn \$614,689 of the \$700,000 authorized. An initiation fee of 1% of the authorized borrowing for the water revenue notes was charged by the Iowa Finance Authority. The total initiation fee of \$7,000 was withheld by the Iowa Finance Authority from the first proceeds of the water revenue notes. Since the City has not fully drawn funds on the water revenue notes, a final repayment schedule has not yet been adopted for the debt. The City drew the remaining \$85,311 after June 30, 2010. During the year ended June 30, 2010, the City paid principal of \$25,000 and \$9,876 of interest. The City water system was placed into service in May 2010.

Governmental Accounting Standards Board Statement No. 48 information is not included since the project was not placed into service until May 2010 and the City did not collect any significant revenues in fiscal year 2010.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Water user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments of principal and interest on the notes falling due in the same year.

(4) Capital Lease Agreement

The City has entered into an agreement to lease a fire truck under a non-cancelable capital lease. The following is a schedule of the future minimum lease payments, including interest at 4.89% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2010:

Year Ending June 30,	Amount
2011	\$ 24,109
2012	24,109
2013	24,109
2014	24,109
2015	24,109
2016	24,109
2017	24,109
Total minimum lease payments	168,763
Less amount representing interest	(28,700)
Present value of net minimum lease payments	\$ 140,063

During the year ended June 30, 2010, the City made principal payments of \$66,456 and interest payments of \$11,650 on the above capital lease and an ambulance capital lease, which was paid off during the year.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2010 was \$23,261, equal to the required contribution for the year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$300 for single coverage and \$900 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2010, the City contributed \$25,800 and plan members eligible for benefits contributed \$4,523 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payments payable to employees at June 30, 2010, primarily relating to the General Fund, was approximately \$16,500. This liability has been computed based on rates of pay in effect at June 30, 2010.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 59,250
Debt Service	General	51,520
Total		<u>\$ 110,770</u>

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

(9) 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.

(10) Subsequent Event

In July 2010, the City issued \$920,000 of general obligation loan notes for the following purposes: \$395,000 to refund general obligation notes, \$310,000 to purchase a fire truck and \$215,000 to purchase land. Also, the City entered into a contract for \$172,800 to repaint two water towers.

City of Granger

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 597,805	-	-
Tax increment financing	79,601	-	-
Other city tax	66,605	-	-
Licenses and permits	19,236	-	-
Use of money and property	5,888	736	-
Intergovernmental	101,660	-	-
Charges for service	49,973	443,214	-
Miscellaneous	78,884	5,000	16,090
Total receipts	999,652	448,950	16,090
Disbursements:			
Public safety	188,324	-	3,768
Public works	47,902	10	10
Health and social services	3,250	-	-
Culture and recreation	109,712	-	6,877
Community and economic development	8,644	-	2,124
General government	172,560	-	-
Debt service	340,637	-	-
Capital projects	242,161	-	-
Business type activities	-	1,307,357	-
Total disbursements	1,113,190	1,307,367	12,779
Excess (deficiency) of receipts over (under) disbursements	(113,538)	(858,417)	3,311
Other financing sources, net	350,000	1,005,632	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	236,462	147,215	3,311
Balances beginning of year	160,256	330,371	37,297
Balances end of year	\$ 396,718	477,586	40,608

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
597,805	596,052	596,052	1,753
79,601	70,000	70,000	9,601
66,605	98,679	98,679	(32,074)
19,236	13,400	13,400	5,836
6,624	8,900	8,900	(2,276)
101,660	92,179	92,179	9,481
493,187	444,188	444,188	48,999
67,794	20,200	20,200	47,594
<u>1,432,512</u>	<u>1,343,598</u>	<u>1,343,598</u>	<u>88,914</u>
184,556	259,149	259,149	74,593
47,902	98,590	98,590	50,688
3,250	3,000	3,000	(250)
102,835	140,556	140,556	37,721
6,520	74,255	74,255	67,735
172,560	113,175	113,175	(59,385)
340,637	243,965	243,965	(96,672)
242,161	-	350,000	107,839
<u>1,307,357</u>	<u>1,379,542</u>	<u>1,379,542</u>	<u>72,185</u>
<u>2,407,778</u>	<u>2,312,232</u>	<u>2,662,232</u>	<u>254,454</u>
(975,266)	(968,634)	(1,318,634)	343,368
<u>1,355,632</u>	<u>985,000</u>	<u>1,335,000</u>	<u>20,632</u>
380,366	16,366	16,366	364,000
<u>453,330</u>	<u>120,610</u>	<u>120,610</u>	<u>332,720</u>
<u>833,696</u>	<u>136,976</u>	<u>136,976</u>	<u>696,720</u>

City of Granger

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$350,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the health and social services, general government and debt service functions.

Other Supplementary Information

City of Granger

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

As of and for the year ended June 30, 2010

	Special		
	Road Use Tax	Local Option Sales Tax	Friends of the Library
Receipts:			
Other city tax	\$ -	59,250	-
Intergovernmental	54,080	-	-
Miscellaneous	883	-	3,127
Total receipts	<u>54,963</u>	<u>59,250</u>	<u>3,127</u>
Disbursements:			
Operating:			
Public safety	-	-	-
Public works	30,173	-	-
Culture and recreation	-	-	6,877
Community and economic development	-	-	-
Debt service	12,500	-	-
Total disbursements	<u>42,673</u>	<u>-</u>	<u>6,877</u>
Excess (deficiency) of receipts over (under) disbursements	12,290	59,250	(3,750)
Other financing uses:			
Operating transfers out	-	(59,250)	-
Net change in cash balances	12,290	-	(3,750)
Cash balances beginning of year	5,127	-	14,262
Cash balances end of year	<u>\$ 17,417</u>	<u>-</u>	<u>10,512</u>
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	<u>\$ 17,417</u>	<u>-</u>	<u>10,512</u>

See accompanying independent auditor's report.

Revenue		
Emergency Services Auxiliary	Economic Development Association	Total
-	-	59,250
-	-	54,080
4,187	3,750	11,947
4,187	3,750	125,277
3,768	-	3,768
-	-	30,173
-	-	6,877
-	2,124	2,124
-	-	12,500
3,768	2,124	55,442
419	1,626	69,835
-	-	(59,250)
419	1,626	10,585
8,529	6,861	34,779
8,948	8,487	45,364
8,948	8,487	45,364

City of Granger
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Broadway street extension	Jan 1, 1995	5.65-7.00 %	\$ 120,000
Sycamore Street water and sewer extensions	Nov 1, 1998	3.90-4.80	150,000
Water booster station	Apr 15, 2003	3.10-5.00	220,000
State street culvert	Oct 1, 2003	3.00-5.00	260,000
Refunding	Nov 1, 2003	1.40-3.70	220,000
Sycamore street culvert	Nov 28, 2007	4.16	315,000
Water treatment plant	Jan 14, 2009	3.00	1,400,000
Shallow well refinancing	May 12, 2009	4.50	400,000
Community center and park	Feb 22, 2010	3.25-4.60	350,000
Total			
Revenue bonds:			
Wastewater treatment facility	Sep 30, 1999	3.05-3.97 %	\$ 655,000
Revenue notes:			
Water treatment plant	Jan 14, 2009	3.25 %	\$ 700,000
Capital leases:			
Fire truck	May 14, 2007	4.89 %	\$ 189,142
Ambulance	Feb 11, 2009	6.25	50,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
15,000	-	15,000	-	1,050
70,000	-	10,000	60,000	3,258
110,000	-	25,000	85,000	4,155
105,000	-	35,000	70,000	3,938
60,000	-	30,000	30,000	2,145
300,000	-	30,000	270,000	12,480
1,002,057	397,943	5,000	1,395,000	40,383
400,000	-	-	400,000	18,950
-	350,000	17,000	333,000	4,344
<u>\$ 2,062,057</u>	<u>747,943</u>	<u>167,000</u>	<u>2,643,000</u>	<u>90,703</u>
389,000	-	33,000	356,000	13,459
-	614,689	25,000	589,689	9,876
156,519	-	16,456	140,063	7,654
50,000	-	50,000	-	3,996
<u>\$ 206,519</u>	<u>-</u>	<u>66,456</u>	<u>140,063</u>	<u>11,650</u>

City of Granger
Bond and Note Maturities
June 30, 2010

Year Ending June 30,	Essential Corporate Purpose Issued Nov 1, 1998		Water Booster Station Issued Apr 15, 2003		State Street Culvert Issued Oct 1, 2003		General Obligation Refunding Issued Nov 1, 2003	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2011	4.55%	\$ 15,000	3.70%	\$25,000	3.75%	\$ 35,000	3.7%	\$ 30,000
2012	4.65	15,000	3.85	30,000	4.00	35,000		-
2013	4.75	15,000	4.00	30,000		-		-
2014	4.80	15,000		-		-		-
2015		-		-		-		-
2016		-		-		-		-
2017		-		-		-		-
2018		-		-		-		-
2019		-		-		-		-
2020		-		-		-		-
2021		-		-		-		-
2022		-		-		-		-
2023		-		-		-		-
2024		-		-		-		-
2025		-		-		-		-
2026		-		-		-		-
2027		-		-		-		-
2028		-		-		-		-
Total		<u>\$ 60,000</u>		<u>\$85,000</u>		<u>\$ 70,000</u>		<u>\$ 30,000</u>

Year Ending June 30,	Revenue Bonds Wastewater Treatment Facility Issued Sep 30, 1999	
	Interest	
	Rates	Amount
2011	3.00%	\$ 34,000
2012	3.00	35,000
2013	3.00	36,000
2014	3.00	38,000
2015	3.00	39,000
2016	3.00	41,000
2017	3.00	43,000
2018	3.00	44,000
2019	3.00	46,000
Total		<u>\$356,000</u>

See accompanying independent auditor's report.

Notes

<u>Sycamore Street Culvert</u>		<u>Water Treatment Plant</u>		<u>Shallow Well Refinancing</u>		<u>Urban Renewal</u>		
<u>Issued Nov 28, 2007</u>		<u>Issued Jan 14, 2009</u>		<u>Issued May 12, 2009</u>		<u>Issued Feb 22, 2010</u>		
Interest		Interest		Interest		Interest		Total
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
4.16%	\$ 30,000	3.00%	\$ 5,000	4.50%	\$ 45,000	3.50%	\$ 15,000	200,000
4.16	30,000	3.00	5,000	4.50	45,000	3.60	17,000	177,000
4.16	30,000	3.00	5,000	4.50	55,000	3.70	29,000	164,000
4.16	35,000	3.00	5,000	4.50	50,000	3.90	34,000	139,000
4.16	35,000	3.00	12,000	4.50	50,000	4.00	36,000	133,000
4.16	35,000	3.00	16,000	4.50	50,000	4.10	37,000	138,000
4.16	35,000	3.00	20,000	4.50	50,000	4.30	39,000	144,000
4.16	40,000	3.00	43,000	4.50	30,000	4.40	40,000	153,000
-	-	3.00	88,000	4.50	25,000	4.50	42,000	155,000
-	-	3.00	108,000	-	-	4.60	44,000	152,000
-	-	3.00	113,000	-	-	-	-	113,000
-	-	3.00	119,000	-	-	-	-	119,000
-	-	3.00	125,000	-	-	-	-	125,000
-	-	3.00	133,000	-	-	-	-	133,000
-	-	3.00	139,000	-	-	-	-	139,000
-	-	3.00	146,000	-	-	-	-	146,000
-	-	3.00	153,000	-	-	-	-	153,000
-	-	3.00	160,000	-	-	-	-	160,000
	<u>\$ 270,000</u>		<u>\$ 1,395,000</u>		<u>\$ 400,000</u>		<u>\$ 333,000</u>	<u>2,643,000</u>

City of Granger



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Granger, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 2, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Granger's internal control over financial reporting 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 the City of Granger's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Granger'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Granger's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (G) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Granger's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which 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, 2010 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 Granger's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Granger'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 Granger and other parties to whom the City of Granger may report and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 2, 2011

City of Granger

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

- (1) Bank reconciliation – no evidence of independent review is noted on monthly bank reconciliations.
- (2) Investments – investing, recording and custody.
- (3) Long-term debt – recording, reconciling and performing cash functions.
- (4) Receipts – recording, reconciling and performing cash functions.

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

Response – All paperwork and receipts will be initialed and dated as much as possible with the limited staff.

Conclusion – Response accepted.

(B) Financial Reporting Software – The City uses a spreadsheet program to track receipts and disbursements for financial reporting purposes and uses Quickbooks software to track check book information and a bank reconciliation. The City has purchased financial accounting software for reporting, but has not used it effectively for financial reporting purposes. Also, the fund balances did not include investments.

In addition, the City Clerk submits monthly financial reports to the City Council which include fund balances, receipts, disbursements, transfers and budget comparisons. However, the monthly financial report of fund balances did not reconcile to the bank balances by \$7,729. This matter was resolved for audit purposes.

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

City of Granger

Schedule of Findings

Year ended June 30, 2010

Response – The City is in the process of reviewing options for more user-friendly financial software system, with a selection and implementation rollout occurring within the next several months.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were compared to an aged trial balance throughout the year. However, the aged trial balance was not reconciled to a delinquent listing and was not reviewed by an independent person.

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

Response – The Finance Committee does review the monthly delinquencies. The office workers will add a monthly aged trial balance to the current daily aged trial balance.

Conclusion – Response acknowledged. However, the aged trial balance should be reconciled to a delinquent listing.

- (D) Payroll Overpayment – During the year, the City hired a new deputy police officer. The deputy was hired at an annual salary of \$37,037. However, from October 2009 to February 2010, the Deputy was paid at an annual rate of \$35,000. When the mistake was recognized, the City paid the deputy for back pay. The gross amount the deputy should have received was \$764. However, he was paid a gross amount of \$6,875, an overpayment of \$6,026.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including a repayment plan.

Response – Through error, the deputy was paid \$6,026.53 in excess of the amount actually due. Part of the excess was paid for FICA, Medicare, IPERS and federal and Iowa income tax withholding. The employee's actual net check was for \$4,301.73. Following consultation with the City Attorney, the Mayor will work with the employee to develop a plan for the repayment of the excess wages. Amended withholding reports will have to be filed to recoup the excess payments for taxes and retirement benefits.

Conclusion – Response accepted.

City of Granger

Schedule of Findings

Year ended June 30, 2010

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

- The City needs to establish a disaster recovery policy.
- The City also does not keep a copy of computer back up tapes offsite.

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

Response – The City will prepare an inventory of hardware and software, as well as a listing of critical applications needed to generate financial reporting and resume municipal operations. The City currently places a daily back up tape in a fireproof safe in City Hall. With the recent opening of the new Community Center, the City will start storing the back up tape in the Community Center and will also investigate the possibility of contracting for online offsite backup services.

Conclusion – Response accepted.

(F) Fire Department Payroll – Volunteer fire fighters are paid on a per call basis. IRS publication 963 states all payments to fire fighters should be processed as payroll and have taxes taken out. However, an exclusion from gross income of up to \$30 for each month in which any services were performed is available to volunteer firefighters and emergency medical responders who are members of a qualified volunteer response organization. The maximum amount that can be excluded is \$30 times 12 months, or \$360 per year. Also, IRS Form W2’s were not issued. During the year fire fighters were paid by claim rather than through payroll.

Recommendation – Procedures should be established to ensure all fire fighter wages are processed as payroll rather than through the normal claims process for wages above the exclusion amounts. Also, IRS Form W-2’s should be issued.

Response – IRS Publication 15-B (and IRS Publication 963) note after 2007 an exclusion from gross income is available to volunteer firefighters and emergency medical responders who are members of a qualified volunteer response organization (such as the Granger Fire and Ambulance Departments). Gross income does not include payments made by a City for providing services as a member of a qualified emergency response organization. Up to \$30 of amounts paid during the year, for each month in which any services were performed during the year, may be excluded from gross income. The maximum amount that can be excluded is \$30 times 12 months, or \$360 per year.

City of Granger

Schedule of Findings

Year ended June 30, 2010

The majority of the City's volunteer firefighters and emergency medical responders receive less than \$360 a year from the City. Each of them performs services each month of the year, so they fall under the exclusion from income. So long as this provision of the tax law is in effect, the City will exclude \$360 each year from the taxable gross income. Beginning January 1, 2011, to the extent any volunteer firefighter or emergency medical responder receives more than \$360 in any calendar year, such excess shall be subject to social security and Medicare and a Form W-2 will be issued.

Conclusion – Response accepted.

- (G) Employee Benefits Fund – The City levies property tax for employee benefits and records the collections from the property tax levy in the General Fund.

Recommendation – The City should establish a Special Revenue, Employee Benefits Fund to record all employee benefits property tax and pay the employee benefits from this fund.

Response – The City will expend all of the employee benefit receipts out of the Special Revenue, Employee Benefit Fund, or make a transfer to the General Fund for the amount of the employee benefits disbursements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Granger

Schedule of Findings

Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the health and social services, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City amended its budget in May 2010, prior to the statutory deadline. However, in May and June two departments exceeded their budgeted authority. The City will improve its review processes during the two final months of future fiscal years to ensure no disbursements are made that exceed the budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- (9) Payment of General Obligation Notes – Certain general obligation notes were paid from the Special Revenue, Road Use Tax and Urban Renewal TIF Funds. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund.”

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

City of Granger

Schedule of Findings

Year ended June 30, 2010

Response – The City will transfer from the Special Revenue, Road Use Tax and Urban Renewal TIF Funds to the Debt Service Fund for future funding contributions, with payments of the notes then disbursed from the Debt Service Fund.

Conclusion – Response accepted.

City of Granger

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Michael R. Field, Staff Auditor
Gelu Sherpa, CPA, Staff Auditor
Daniel W. Henaman, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State