



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 2, 2012

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 \$2,589,927 for the year ended June 30, 2011, an 8% decrease from the prior year. The receipts included \$668,439 in property tax, \$93,660 from tax increment financing, \$529,317 from charges for service, \$221,051 from operating grants, contributions and restricted interest, \$70,352 from local option sales tax, \$8,049 from unrestricted interest on investments, \$983,530 from note proceeds and \$16,449 from other general receipts.

Disbursements for the year totaled \$2,839,113 a 17% increase from the prior year, and included \$600,155 for capital projects, \$514,668 for public safety, \$393,212 for refunding general obligation notes and \$367,437 for debt service. Also, disbursements for business type activities totaled \$523,568.

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/1121-0234-B00F.pdf>.

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

JUNE 30, 2011

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City of Granger

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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	Resigned June 2011
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, 2011, 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.

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 Granger as of June 30, 2011, 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 March 6, 2012 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, 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

March 6, 2012

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$135,000, primarily due to capital projects completed during the fiscal year ended June 30, 2011.
- The cash basis net assets of the City's business type activities decreased approximately \$113,000 due to a transfer to the Capital Projects Fund to pay for coating the interior of the water tower.

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 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 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.

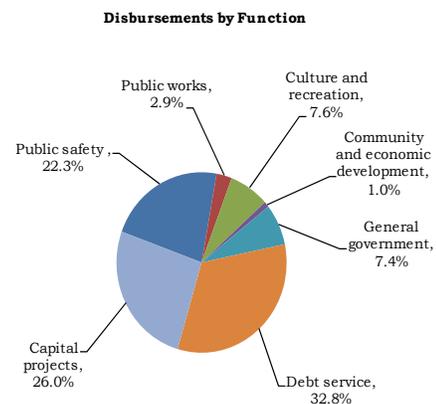
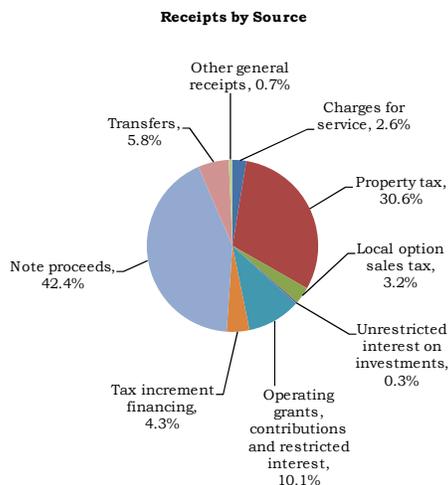
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

Reconciliations between the government-wide financial statement and the governmental funds financial statement follow 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 decreased from a year ago, decreasing from \$409,000 to \$274,000. 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,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 57	70
Operating grants, contributions and restricted interest	221	179
General receipts:		
Property tax	668	605
Tax increment financing	94	80
Local option sales tax	70	59
Unrestricted interest on investments	7	5
Note proceeds	920	350
Other general receipts	16	6
Total receipts	2,053	1,354
Disbursements:		
Public safety	515	188
Public works	68	48
Health and social services	3	3
Culture and recreation	175	110
Community and economic development	23	9
General government	170	172
Debt service	368	341
Capital projects	600	242
General obligation notes refunded	393	-
Total disbursements	2,315	1,113
Increase (decrease) in cash basis net assets before transfers	(262)	241
Transfers, net	127	-
Change in cash basis net assets	(135)	241
Cash basis net assets beginning of year	409	168
Cash basis net assets end of year	\$ 274	409



The cash basis net assets of the City's governmental funds decreased from approximately \$409,000 to approximately \$274,000, due primarily to increased disbursements for capital projects and debt service.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 229	218
Sewer	181	169
Garbage	62	55
General receipts:		
Unrestricted interest on investments	2	1
Note proceeds	63	1,006
Total receipts	537	1,449
Disbursements:		
Water	320	1,127
Sewer	145	127
Garbage	58	53
Total disbursements	523	1,307
Increase in cash basis net assets before transfers	14	142
Transfers, net	(127)	-
Change in cash basis net assets	(113)	142
Cash basis net assets beginning of year	465	323
Cash basis net assets end of year	\$ 352	465

Total business type activities cash basis net assets decreased from a year ago, from approximately \$465,000 to approximately \$352,000. The decrease is due to a transfer to the Capital Projects Fund to pay for coating of the interior of the water tower.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Granger completed the year, its governmental funds reported a combined fund balance of \$257,979, a decrease of \$ 138,739 from last year's total of \$396,718. 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 \$64,146 from the prior year to a year-end balance of \$262,888. This increase is primarily due to an increase in intergovernmental receipts.
- The Debt Service Fund cash balance increased \$42,766 from the prior year to a year-end balance of \$72,046. The increase is due to debt payments being paid out of road use tax and tax increment financing during the fiscal year ended June 30, 2011.
- The Capital Projects Fund cash balance decreased \$257,760 from the prior year to a year-end balance of \$(149,921). This is primarily due to project costs for the community center and other parks and recreation projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$155,134 to a year-end balance of \$4,018. This decrease was primarily due to an increase in capital projects during the fiscal year ended June 30, 2011.
- The Enterprise, Sewer Fund cash balance increased \$37,482 to a year-end balance of \$339,662. 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 two times. The amendments were approved on February 9, 2011 and May 11, 2011 and resulted in increases in other financing sources, public safety, culture and recreation, general government and debt service disbursements of \$999,080. The City issued \$920,000 of general obligation notes on August 11, 2010 to finance the purchase of a fire truck, land and to refund certain general obligation notes.

Even with the budget amendments, the City exceeded the budget for the public safety, general government and capital projects functions for the year ended June 30, 2011. Actual intergovernmental receipts exceeded the budget due to road use tax and receipts from townships. The capital projects disbursements were over budget and the culture and recreation disbursements were under budget because the City paid for the purchase of land for the new Library building out of the Capital Projects Fund but budgeted the purchase from the culture and recreation function rather than the capital projects function.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$4,022,219 in long-term debt outstanding, compared to \$3,728,752 last year. The table below segregates the City’s debt into its component parts.

Outstanding Debt at Year-End		
	June 30,	
	2011	2010
General obligation notes	\$ 3,073,000	2,643,000
Revenue bonds	322,000	356,000
Revenue notes	627,219	589,689
Capital lease	-	140,063
Total	<u>\$ 4,022,219</u>	<u>3,728,752</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt is \$3,073,000, below its constitutional debt limit of approximately \$3,882,000.

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 2012 budget, tax rates and fees charged for various City activities. The City’s fiscal year 2012 assessed valuation has increased \$2,266,452 over the fiscal year 2011 level.

The fiscal year 2012 budget contains total receipts of \$2,904,735 and disbursements of \$2,885,624. This budget is higher than the original fiscal year 2011 budget which contained total receipts and other financing sources of \$2,623,297 and disbursements of \$2,781,514.

The fiscal year 2012 levy is \$15.98886 per \$1,000 of taxable valuation, an increase from \$15.41724 per \$1,000 of taxable valuation for fiscal year 2011. The debt service levy increased from \$6.00514 per \$1,000 of taxable valuation for 2011 to \$6.85890 per \$1,000 of taxable valuation for fiscal year 2012.

These parameters were taken into account when adopting the budget for fiscal year 2012.

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 Kristy Trzeciak, 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, 2011

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 514,668	55,244	91,888
Public works	67,956	-	74,517
Health and social services	3,315	-	-
Culture and recreation	174,789	221	37,813
Community and economic development	22,604	-	-
General government	170,489	1,055	16,833
Debt service	368,357	-	-
Capital projects	600,155	-	-
Total governmental activities	1,922,333	56,520	221,051
Business type activities:			
Water	320,383	229,114	-
Sewer	145,458	181,291	-
Garbage	57,727	62,392	-
Total business type activities	523,568	472,797	-
Total	\$ 2,445,901	529,317	221,051
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Note proceeds			
General obligation notes refunded			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
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
(367,536)	-	(367,536)
6,561	-	6,561
(3,315)	-	(3,315)
(136,755)	-	(136,755)
(22,604)	-	(22,604)
(152,601)	-	(152,601)
(368,357)	-	(368,357)
(600,155)	-	(600,155)
(1,644,762)	-	(1,644,762)
-	(91,269)	(91,269)
-	35,833	35,833
-	4,665	4,665
-	(50,771)	(50,771)
(1,644,762)	(50,771)	(1,695,533)
398,124	-	398,124
270,315	-	270,315
93,660	-	93,660
70,352	-	70,352
6,400	1,649	8,049
920,000	63,530	983,530
(393,212)	-	(393,212)
16,449	-	16,449
127,395	(127,395)	-
1,509,483	(62,216)	1,447,267
(135,279)	(112,987)	(248,266)
409,379	464,925	874,304
\$ 274,100	351,938	626,038
\$ 72,046	198,568	270,614
-	32,771	32,771
72,966	-	72,966
129,088	120,599	249,687
\$ 274,100	351,938	626,038

City of Granger

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

As of and for the year ended June 30, 2011

	General	Debt Service
Receipts:		
Property tax	\$ 368,593	270,315
Tax increment financing	-	-
Other city tax	4,523	-
Licenses and permits	17,819	-
Use of money and property	13,275	-
Intergovernmental	92,455	-
Charge for service	37,970	-
Miscellaneous	43,905	-
Total receipts	<u>578,540</u>	<u>270,315</u>
Disbursements:		
Operating:		
Public safety	509,169	-
Public works	25,415	-
Health and social services	3,315	-
Culture and recreation	171,692	-
Community and economic development	14,368	-
General government	170,489	-
Debt service	25,306	229,337
Capital projects	-	-
Total disbursements	<u>919,754</u>	<u>229,337</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(341,214)</u>	<u>40,978</u>
Other financing sources (uses):		
Note proceeds	310,000	395,000
General obligation notes refunded	-	(393,212)
Operating transfers in	95,360	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>405,360</u>	<u>1,788</u>
Net change in cash balances	64,146	42,766
Cash balances beginning of year	198,742	29,280
Cash balances end of year	<u>\$ 262,888</u>	<u>72,046</u>
Cash Basis Fund Balances		
Restricted for:		
Debt service	\$ -	72,046
Other purposes	-	-
Unassigned	262,888	-
Total cash basis fund balances	<u>\$ 262,888</u>	<u>72,046</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	25,008	663,916
-	93,660	93,660
-	70,352	74,875
-	-	17,819
-	-	13,275
-	71,419	163,874
-	-	37,970
-	20,117	64,022
-	280,556	1,129,411
-	5,499	514,668
-	42,541	67,956
-	-	3,315
-	3,097	174,789
-	8,236	22,604
-	-	170,489
-	113,714	368,357
600,155	-	600,155
600,155	173,087	1,922,333
(600,155)	107,469	(792,922)
215,000	-	920,000
-	-	(393,212)
127,395	-	222,755
-	(95,360)	(95,360)
342,395	(95,360)	654,183
(257,760)	12,109	(138,739)
107,839	60,857	396,718
(149,921)	72,966	257,979
-	-	72,046
-	72,966	72,966
(149,921)	-	112,967
(149,921)	72,966	257,979

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, 2011

Total governmental funds cash balances (page 17) \$ 257,979

***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.

16,121

Cash basis net assets of governmental activities (page 15) \$ 274,100

Net change in cash balances (page 17) \$ (138,739)

***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.

3,460

Change in cash balances of governmental activities (page 15) \$ (135,279)

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, 2011

	Enterprise				Internal
	Water	Sewer	Nonmajor Garbage	Total	Service Vehicle Replacement
Operating receipts:					
Charges for service	\$222,571	181,291	62,392	466,254	-
Miscellaneous	6,543	-	-	6,543	3,460
Total operating receipts	229,114	181,291	62,392	472,797	3,460
Operating disbursements:					
Business type activities	185,357	100,600	57,727	343,684	-
Excess of operating receipts over operating disbursements	43,757	80,691	4,665	129,113	3,460
Non-operating receipts (disbursements):					
Interest on investments	-	1,649	-	1,649	-
Revenue note proceeds	63,530	-	-	63,530	-
Capital projects	(88,583)	-	-	(88,583)	-
Debt service	(46,443)	(44,858)	-	(91,301)	-
Net non-operating receipts (disbursements)	(71,496)	(43,209)	-	(114,705)	-
Excess (deficiency) of receipts over (under) disbursements	(27,739)	37,482	4,665	14,408	3,460
Operating transfers out	(127,395)	-	-	(127,395)	
Net change in cash balances	(155,134)	37,482	4,665	(112,987)	3,460
Cash balances beginning of year	159,152	302,180	3,593	464,925	12,661
Cash balances end of year	\$ 4,018	339,662	8,258	351,938	16,121
Cash Basis Fund Balances					
Reserved for:					
Debt service	\$ 12,469	186,099	-	198,568	-
Capital projects	32,771	-	-	32,771	-
Unreserved	(41,222)	153,563	8,258	120,599	16,121
Total cash basis fund balances	\$ 4,018	339,662	8,258	351,938	16,121

See notes to financial statements.

City of Granger

Notes to Financial Statements

June 30, 2011

(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 the following categories/components:

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 from general and emergency levies 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 Debt Service Fund is utilized to account for property tax and other revenue to be used 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 Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, general government and capital projects functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 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
2012	\$ 247,000	99,278	35,000	1,050	282,000	100,328
2013	229,000	92,243	36,000	1,080	265,000	93,323
2014	204,000	85,097	38,000	1,140	242,000	86,237
2015	198,000	78,315	39,000	1,170	237,000	79,485
2016	203,000	71,509	41,000	1,230	244,000	72,739
2017 - 2021	952,000	249,532	133,000	3,990	1,085,000	253,522
2022 - 2026	727,000	115,370	-	-	727,000	115,370
2027 - 2028	313,000	14,190	-	-	313,000	14,190
Total	<u>\$3,073,000</u>	<u>805,534</u>	<u>322,000</u>	<u>9,660</u>	<u>3,395,000</u>	<u>815,194</u>

The Code of Iowa requires principal and interest on general obligation notes be paid from the Debt Service Fund. However, \$113,714 of general obligation note principal and interest was paid from the Special Revenue, Road Use Tax and Urban Renewal TIF Funds.

General Obligation Current Refunding Notes

On August 11, 2010, the City issued \$920,000 of general obligation notes, Series 2010B. The notes were issued for the purpose of refunding the outstanding balances of \$60,000 of the \$150,000 of Sycamore street water and sewer extensions notes issued November 1, 1998; \$85,000 of the \$220,000 water booster station notes issued April 15, 2003; \$70,000 of the \$260,000 State Street culvert notes issued October 1, 2003; \$30,000 of the \$220,000 refunding general obligation notes issued November 1, 2003 and the outstanding balance of \$140,063 of the \$189,142 fire truck capital lease issued on May 14, 2007. Total debt refunded by the issuance was \$385,063.

In addition to refunding the general obligation notes and the capital lease, the City purchased a new fire truck and chassis for the City's Fire Department and land for the future site of the new City Library.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$18,855.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$655,000 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 56% of net receipts. The total principal and interest remaining to be paid on the bonds is \$331,660. For the current year, principal and interest paid and total customer net receipts were \$44,680 and \$80,691, 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, 2011, the City had drawn \$678,219 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 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 \$781 after June 30, 2011, but did not draw down the remaining \$21,000 of the \$700,000 authorized. Annual principal and interest payments on the bonds are expected to require less than 106% of net receipts. For the current year, principal and interest paid and total customer net receipts were \$46,250 and \$43,757, respectively.

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.

During the year ended June 30, 2011, the City was not in compliance with the net revenue requirement for the water revenue notes as required by the note resolution.

(4) Capital Lease Agreement

In a prior year, the City entered into an agreement to lease a fire truck under a non-cancelable capital lease. The fire truck lease was paid off during the year ended June 30, 2011 with \$144,978 from the proceeds of the general obligation current refunding notes.

(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 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$23,797, 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, 2011, the City contributed \$43,249 and plan members eligible for benefits contributed \$5,451 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, 2011, primarily relating to the General Fund, was approximately \$15,700. This liability has been computed based on rates of pay in effect at June 30, 2011.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 70,352
	Employee Benefits	25,008
		95,360
Enterprise:		
Water	Capital Projects	127,395
Total		\$ 222,755

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.

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 Enterprise Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Enterprise Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 663,916	-	-
Tax increment financing	93,660	-	-
Other city tax	74,875	-	-
Licenses and permits	17,819	-	-
Use of money and property	13,275	-	-
Intergovernmental	163,874	-	-
Charges for service	37,970	466,254	-
Miscellaneous	64,022	6,543	17,019
Total receipts	1,129,411	472,797	17,019
Disbursements:			
Public safety	514,668	-	5,499
Public works	67,956	-	-
Health and social services	3,315	-	-
Culture and recreation	174,789	-	3,097
Community and economic development	22,604	-	8,236
General government	170,489	-	-
Debt service	368,357	91,301	-
Capital projects	600,155	88,583	-
Business type activities	-	343,684	-
Total disbursements	1,922,333	523,568	16,832
Excess (deficiency) of receipts over (under) disbursements	(792,922)	(50,771)	187
Other financing sources, net	654,183	(62,216)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(138,739)	(112,987)	187
Balances beginning of year	396,718	464,925	27,947
Balances end of year	\$ 257,979	351,938	28,134

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
663,916	660,352	660,352	3,564
93,660	95,000	95,000	(1,340)
74,875	109,007	109,007	(34,132)
17,819	11,400	11,400	6,419
13,275	4,382	4,382	8,893
163,874	98,470	98,470	65,404
504,224	514,686	514,686	(10,462)
53,546	15,000	15,000	38,546
<u>1,585,189</u>	<u>1,508,297</u>	<u>1,508,297</u>	<u>76,892</u>
509,169	197,829	507,829	(1,340)
67,956	132,854	144,854	76,898
3,315	3,500	3,500	185
171,692	211,863	573,863	402,171
14,368	5,000	29,000	14,632
170,489	120,162	140,162	(30,327)
459,658	383,778	642,858	183,200
688,738	2,451	2,451	(686,287)
343,684	1,724,077	1,736,077	1,392,393
<u>2,429,069</u>	<u>2,781,514</u>	<u>3,780,594</u>	<u>1,351,525</u>
(843,880)	(1,273,217)	(2,272,297)	1,428,417
<u>591,967</u>	<u>1,115,000</u>	<u>2,034,080</u>	<u>(1,442,113)</u>
(251,913)	(158,217)	(238,217)	(13,696)
<u>833,696</u>	<u>238,526</u>	<u>238,526</u>	<u>595,170</u>
<u>581,783</u>	<u>80,309</u>	<u>309</u>	<u>581,474</u>

City of Granger

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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, two budget amendments increased budgeted disbursements by \$999,080. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, general government and capital projects 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, 2011

	Road Use Tax	Local Option Sales Tax	Employee Benefits
Receipts:			
Property tax	\$ -	-	25,008
Tax increment financing	-	-	-
Other city tax	-	70,352	-
Intergovernmental	71,419	-	-
Miscellaneous	3,098	-	-
Total receipts	74,517	70,352	25,008
Disbursements:			
Operating:			
Public safety	-	-	-
Public works	42,541	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
Debt service	17,500	-	-
Total disbursements	60,041	-	-
Excess (deficiency) of receipts over (under) disbursements	14,476	70,352	25,008
Other financing uses:			
Operating transfers out	-	(70,352)	(25,008)
Net change in cash balances	14,476	-	-
Cash balances beginning of year	17,417	-	-
Cash balances end of year	\$ 31,893	-	-
Cash Basis Fund Balances			
Restricted for other purposes	\$ 31,893	-	-

See accompanying independent auditor's report.

Special Revenue				
Urban Renewal TIF	Friends of the Library	Emergency Services Auxiliary	Economic Development Association	Total
-	-	-	-	25,008
93,660	-	-	-	93,660
-	-	-	-	70,352
-	-	-	-	71,419
-	4,406	8,513	4,100	20,117
93,660	4,406	8,513	4,100	280,556
	-	5,499	-	5,499
	-	-	-	42,541
	3,097	-	-	3,097
	-	-	8,236	8,236
96,214	-	-	-	113,714
96,214	3,097	5,499	8,236	173,087
(2,554)	1,309	3,014	(4,136)	107,469
-	-	-	-	(95,360)
(2,554)	1,309	3,014	(4,136)	12,109
15,493	10,512	8,948	8,487	60,857
12,939	11,821	11,962	4,351	72,966
12,939	11,821	11,962	4,351	72,966

City of Granger
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
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
Refunding - Series 2010B	Aug 11, 2010	2.00-4.00	920,000
Total			
Revenue bonds:			
Wastewater treatment facility	Sep 30, 1999	3.90-4.80%	\$ 655,000
Revenue notes:			
Water treatment plant	Jan 14, 2009	3.25%	\$ 700,000
Capital lease:			
Fire truck	May 14, 2007	4.89%	\$ 189,142

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
60,000	-	60,000	-	704
85,000	-	85,000	-	820
70,000	-	70,000	-	678
30,000	-	30,000	-	278
270,000	-	30,000	240,000	11,232
1,395,000	-	5,000	1,390,000	41,850
400,000	-	45,000	355,000	18,000
333,000	-	15,000	318,000	13,844
-	920,000	150,000	770,000	15,975
<u>\$ 2,643,000</u>	<u>920,000</u>	<u>490,000</u>	<u>3,073,000</u>	<u>103,381</u>
<u>356,000</u>	<u>-</u>	<u>34,000</u>	<u>322,000</u>	<u>10,680</u>
<u>589,689</u>	<u>63,530</u>	<u>26,000</u>	<u>627,219</u>	<u>20,250</u>
<u>140,063</u>	<u>-</u>	<u>140,063</u>	<u>-</u>	<u>4,915</u>

City of Granger
 Bond and Note Maturities
 June 30, 2011

General Obligation						
Year Ending June 30,	<u>Sycamore Street Culvert</u> Issued Nov 28, 2007		<u>Water Treatment Plant</u> Issued Jan 14, 2009		<u>Shallow Well Refinancing</u> Issued May 12, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.16%	\$ 30,000	3.00%	\$ 5,000	4.50%	\$ 45,000
2013	4.16	30,000	3.00	5,000	4.50	55,000
2014	4.16	35,000	3.00	5,000	4.50	50,000
2015	4.16	35,000	3.00	12,000	4.50	50,000
2016	4.16	35,000	3.00	16,000	4.50	50,000
2017	4.16	35,000	3.00	20,000	4.50	50,000
2018	4.16	40,000	3.00	43,000	4.50	30,000
2019		-	3.00	88,000	4.50	25,000
2020		-	3.00	108,000		-
2021		-	3.00	113,000		-
2022		-	3.00	119,000		-
2023		-	3.00	125,000		-
2024		-	3.00	133,000		-
2025		-	3.00	139,000		-
2026		-	3.00	146,000		-
2027		-	3.00	153,000		-
2028		-	3.00	160,000		-
Total		<u>\$ 240,000</u>		<u>\$ 1,390,000</u>		<u>\$ 355,000</u>

<u>Revenue Bonds</u>		
<u>Wastewater Treatment Facility</u>		
Year Ending June 30,	<u>Issued Sep 30, 1999</u>	
	Interest Rates	Amount
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>\$ 322,000</u>

See accompanying independent auditor's report.

City of Granger



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Granger is responsible for establishing and maintaining effective 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) and (B) 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 (C) through (E) to be significant deficiencies.

Compliance and Other Matters

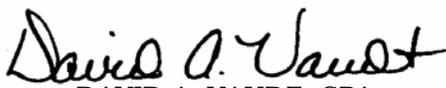
As part of obtaining reasonable assurance about whether the City of Granger's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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.

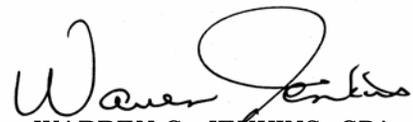
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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 the 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

March 6, 2012

City of Granger

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One or two persons have control over each of the following areas:
- (1) Cash – handling of petty cash and reconciling.
 - (2) Investments – investing, recording and custody.
 - (3) Long-term debt – recording, reconciling and performing cash functions.
 - (4) Receipts – recording, reconciling and performing cash functions.
 - (5) Payroll – Preparation and distributing

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

Response – All reconciliations will be reviewed and initialed and dated by the Finance Committee which consists of two City Council members. The receipts are being entered in the receipt book by the Deputy City Clerk and then the amounts are entered into the accounting software by the City Clerk. Therefore, two employees are checking the receipt amounts on a daily basis. The City Clerk plans to cross-train the Deputy City Clerk to cover payroll preparation and distributing so there are two employees who can do payroll at any given time.

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 prepare 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 savings account activity.

In addition, the City Clerk submits monthly financial reports which include fund balances, receipts, disbursements, transfers and budget comparisons to the City Council. However, the fund balances were not reconciled to the bank balances monthly.

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 records transactions according to the

City of Granger

Schedule of Findings

Year ended June 30, 2011

uniform chart of accounts for cities, making it easier for the City Clerk to prepare financial reports. The software will also help make the accounting records more reliable and will give the City Council better control over budgeted disbursements.

Response – The City purchased a user-friendly financial software system in October 2011. All fund balances, including savings account balances, will be reconciled monthly in the new accounting system and will be included in the balance sheet, income statement and treasurer’s report. The monthly financial statements, treasurer’s report, receipts, disbursements and budget comparisons will be reviewed each month by the Finance Committee.

Conclusion - Response accepted.

(C) Computer Systems – During our review of internal control, the existing control activities in the City’s computer 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 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 its computer systems.

Response – The City will prepare an inventory of hardware and software, as well as a listing of critical applications needed for general financial reporting and to resume municipal operations. The City currently places a daily backup tape in a fireproof safe at City Hall. However, our new financial software system recommends using an online backup service. Data will be automatically backed up each night and stored offsite. Data will store up to six weeks at a time. The City is in the process of purchasing this online backup.

Conclusion – Response accepted.

(D) Notice of Public Hearings – Cities are required to publish notice of public hearings not less than 4 or more than 20 days before the hearing date per Chapters 26.12 and 362.3 of the Code of Iowa. Two projects had no public notice documentation and one project had no documentation of a public hearing.

Recommendation – The City should ensure it publishes public notices in accordance with the Code of Iowa.

Response – The City will publish its public notices in accordance with the Code of Iowa.

Conclusion – Response accepted.

City of Granger

Schedule of Findings

Year ended June 30, 2011

- (E) Clothing Allowance – A clothing allowance is paid to employees of the public works, code enforcement and police department during the fiscal year. The reimbursements were not paid through the payroll system and, therefore, were not subject to withholdings or reported as wages.

Recommendation – The City should consult the Internal Revenue Service regarding the disposition of this matter.

Response – The City will reimburse clothing allowance for public works, code enforcement and the police department through the payroll system starting this fiscal year.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Granger

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, general government and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will improve its review process 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 – The provisions of the water revenue notes require water user rates be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2011, the City was not in compliance with the net revenue requirement of the water revenue note resolution.

Recommendation – The City should ensure water user rates are established at a level which produces net revenues of 110% of the annual principal and interest payments on the notes.

Response – The City will reevaluate the water rates to ensure we are in compliance with the revenue note requirements.

Conclusion – Response accepted.

City of Granger

Schedule of Findings

Year ended June 30, 2011

- (9) Payment of General Obligation Notes – Certain general obligation notes were paid from the General and 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 General and the Special Revenue, Road Use Tax and Urban Renewal TIF Funds to the Debt Service Fund for future funding contributions. Payments of the notes should then be disbursed from the Debt Service Fund.

Response – The City will transfer from the General Fund and 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.

- (10) Tax Increment Financing Debt – During the year ended June 30, 2011, the City paid interest of \$14,200 for the community center capital project debt which had not been previously certified as TIF debt. In addition, the City had savings of \$3,198 from the refunding of general obligation debt previously certified as TIF debt.

Recommendation – The City should certify the portion of the TIF debt for which it will use TIF receipts to pay for the community center loan and decertify the savings received due to the refunding of previously certified TIF debt.

Response – The City has certified the portion of the TIF debt for which we will be using TIF receipts to pay for the community center loan with the help of the auditors.

Conclusion - Response accepted.

City of Granger

Staff

This audit was performed by:

James C. Cunningham, CPA, Manager
Michael R. Field, Staff Auditor
Justin M. Scherrman, Assistant Auditor
Jason R. Ropte, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State